2022

ANNUAL REPORT

UNLOCKING POSSIBILITIES

THE RCBC BRAND

Rizal MicroBank brand is aligned with the strategy of the parent bank, using the "Blue Hexagon" corporate logo.

The Blue Hexagon is the corporate logo of the Yuchengco Group of Companies, of which RCBC is the financial services arm of theconglomerate. It was conceived with synergy in mind, with its six interlocking trapezoidal fields representing the conglomerate's founding businesses: life insurance, non-life insurance, banking and finance, investments, transportation and communication, and manufacturing and construction. The design gives the impression of a dynamo spinning on its hub—dynamic and ever-moving. The hexagon is viewed as a celestial sphere that radiates power, energy, and productivity.

For the past 62 years, RCBC has proudly used the Blue Hexagon to symbolize its union with the YGC conglomerate. However, the bank recognizes the need to be a dynamic brand that will resonate not just with its traditional corporate clients, but with the retail consumers as well. Thus, in 2017, RCBC embarked on a brand refresh.

The new RCBC is anchored on the mission to maintain and further strengthen the Bank's relevance among Filipino depositors amidst the changing banking landscape and shifting dynamics. This is the Bank's way to refresh and re-energize its services to serve its loyal customers who have stood with them all these years. At the same time, this was also RCBC's way to expand its presence among the younger Filipino depositors.

Having built a solid foundation of service and trust through the years, RCBC embodied these values as cornerstones in making its brand meaningful to consumers in the financial services sector. Bringing to life messages on customer service became central to the bank's campaign, anchoring it in the reality that client relationships are at the heart of RCBC.

This message ultimately finds its expression in the tagline "Partners through Generations," –a line encapsulating RCBC's strong partnerships built over the last six decades and passed on to future generations.

It becomes a clear message that this is not about the bank, but what the bank can do for its customers. It is rooted in the insight that the bank can be a strong partner in creating possibilities with a formidable line-up of financial products and services.

RCBC amplifies the importance it has placed in building great customer relationships. It understands that every Filipino works hard in order to achieve their dreams. It is RCBC's commitment that it will be there to provide its clients with the right financial tools to help them achieve their dreams.

OUR VISION

Make financial access work,
produce impactful & sustainable results.

OUR CORE VALUES

Malasakit

We have "malasakit" in serving our customers for inclusive development of our nation. Our employees have "malasakit" to the Bank and the bank to its employees.

Integrity

We are trustworthy in dealing with our customers and we are transparent in everything that we do.

Commitment

We are committed to providing excellent service, to developing the competence of our people, and to building loyalty and value for RMB and our customers.

Resourcefulness

We are resourceful in responding to the needs of the customers and in achieving the desired results and objectives of the company while upholding ethics.

Oneness

We will be united as a team as we work together across Luzon, Visayas, and Mindanao.

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ABOUT RIZAL MICROBANK

Rizal MicroBank, Inc. – A Thrift Bank of RCBC (RMB) operates as a subsidiary of Rizal Commercial Banking Corporation (RCBC). RCBC is majority-owned by the Yuchengco Group of Companies (YGC), one of the oldest and largest conglomerates in Southeast Asia.

RMB began its operations in August 2010 through its first branch in Koronadal, South Cotabato. Two years later, it acquired the branch licenses of another RCBC subsidiary, Pres. Jose P. Laurel Rural Bank, which had operations in Southern Tagalog region on the main island of Luzon. Presently, RMB operates nationwide with a total of sixteen (16) branches and two (2) branch-lite units.

Throughout its twelve years of operations, RMB remained true to its vision of becoming a leader in making financial access work in the hopes of producing sustainable and impactful results not just for micro and small entrepreneurs, but especially for unbanked and underserved communities. Our goal is to provide customer-centric, innovative products that would make financial services accessible and convenient to Filipinos.

Such transition remained grounded on our core values, aptly encapsulated in the acronym “MICRO”:

Malasakit – We are driven by our mission to serve our customer for the inclusive development of our nation out of our care for their hopes and dreams. Further, this “malasakit” is reciprocated between the Bank and its employees as manifested in our everyday work.

Integrity – We are trustworthy in dealing with our customers and we are transparent in everything that we do.

Commitment – We are committed to provide excellent service, to develop the competence of our people, and to build loyalty and value for RMB and our customers.

Resourcefulness – We are resourceful in responding to the needs of our customers, and in achieving the desired results and objectives of the company while upholding ethics.

Oneness – We will be united as a team as we work together across Luzon, Visayas and Mindanao.

Our Board of Directors, comprised of professionals with competencies and experience in the disciplines of banking, accounting, economics, law, agribusiness, and development finance, are leading the Bank in its efforts to positively contribute to the welfare of the ordinary Filipinos. Alongside our parent bank, RMB will continuously fulfill its mission of bringing financial services closer to the homes of the unbanked and underserved communities in the Philippines.

FINANCIAL PERFORMANCE

Rizal Microbank, Inc. – A Thrift Bank of RCBC (RMB) continued to unlock possibilities for the common Filipino despite the impact of the Covid-19 pandemic across various industries. The bank remained dedicated to catalyzing the progress for micro and small entrepreneurs within its trade areas while likewise striving for a profitable position.

Throughout 2022, RMB spearheaded through initiatives that created new opportunities for reinventing customer experiences, streamlining processes, and fostering relationships with stakeholders that share the same purpose as the bank. Through these, RMB sparked a strong turnaround, leading a successful finish for 2022.

As of year-end, the bank significantly reduced its losses by P29.5 Million and posted a net income of P19.6 Million. Improvements emanated from the interest income, growing by P11.3 Million or 7% year-on-year. Provision for bad debts was reduced by 396% compared to the previous year, given a reversal of P15.8 Million as a result of improving its credit portfolio quality. Gains from the sale of foreclosed assets and bank properties amounting to P16.8 Million also boosted the profitability of the bank.

Loans and receivables increased by 15% or P166 Million. This represented 71% of the bank's total resources, mainly comprised of loans extended to those in the agricultural sector. Strategies on effective fund management, strict cost control, and proactive oversight of portfolio quality were implemented.

The noted growth was financed through the acquisition of deposits, which totalled P1.05 Billion—a 27% increase from the previous year. These influenced the surge in total liabilities which grew by 23% to P1.2 Billion with both CASA and Time Deposits posting a 12% and 34% improvement respectively.

On top of that, total equity stood at P503.7 Million resulted in a 17% increase. This paved way for RMB to maintain its capital above regulatory standard under BASEL III, with a 29.1% Capital Adequacy Ratio and Common Equity Tier 1 of 29.05%, which risk-weighted assets amounting to P1.7 Billion.

OPERATIONAL PERFORMANCE

As a thrift bank subsidiary of RCBC tasked to provide access to financing in the countryside, meaningful partnerships with private organizations such as Franklin Baker, Tacul Agri-based Farmers and Workers Association (TAFWA), Integrated Rural Development Foundation (IRDF), and Livelihoods Fund for Family Farming (L3F), all involved in the coconut value chain also transpired in 2022.

Embodying "Malasakit" as a core value, RMB has made it its mission to widen its reach and provide credit to farmers. Through its AgriBiz Loan Program, RMB worked with Franklin Baker to provide a seamless financing mechanism for traders-suppliers that shortened the payment period to the suppliers from 30 days to just two days. For members of TAFWA, RMB worked with IRDF and L3F to launch a Land Redemption Program anchored on the bank's AgriBiz Lite Program which enabled coconut farmers to recover their pawned lands and enjoy the fruits of their farm land.

As the world continued to operate in the new normal, it produced a setting that will support technical advancement and innovation. Taking new ideas and techniques to stay competitive in this changing business and economic environment, the bank continued to strengthen its internal capabilities especially in the areas of digitalization and digitization. RMB prioritized the deployment of its cloud-based Loan Origination System and the integration of an online loan application facility within its website. This initiative is designed to provide an improve customer experience by making loan application accessible and faster.

RMB sustained its agency banking program as part of the bank's contribution to the country's campaign towards digital financial inclusion. Bangko ng Bayan assists in closing the gap within unbanked areas through crafting partnerships with commonly based merchants that will serve as a conduit for providing within their communities. To date, the program has yielded 86 cash agent partners, processing P38.7 Million worth of transactions, disbursing P3.3 Million of loans and enabling 1,654 Filipinos experience their first bank account.

Such mechanisms and efforts affected the increase of the loan portfolio to P1.2 Billion. These resulted in a total disbursement of P1.5 Billion which is 5% higher year-on-year, of which 599 are new loans consisting of P212.7 Million.

With all the success emanating from the past year, it is only imperative to recognize the individuals who made these possible. RMB conducted programs to acknowledge the employees who are continuously committed to represent the bank in its endeavors as well as those who perform exceptionally in their undertaking. These engagements aim to acknowledge and show appreciation for the people behind the bank's operations. They aid RMB in overcoming obstacles on its journey; despite the rough path, the team can stood together in synergy.

Covid-19 has had an immerse aftermath, and RMB remains resilient in its operations. The bank has made significant strides toward recovery in 2022. Beyond the numbers and various initiatives, taking to heart what it really means to be inclusive is what drives Rizal Microbank to move forward and upward as it embarks to serve more Filipino micro and small entrepreneurs on their path to growth and sustainability.

FINANCIAL HIGHLIGHTS AND RATIOS

	Audited			
	2022	2021	Variance	% change
Profitability (in PHP MN)				
Total Net Interest Income	158	150	8	5.24%
Total Non-Interest Income	56	50	6	11.67%
Total Non-Interest Expense	209	203	6	3.05%
Pre-Provision Profit	4	-4	7	206.01%
Allowance for Credit Losses	-16	6	-22	-350.70%
Net Income (Loss)	20	-10	29	297.84%
Selected Balance Sheet Data (in PHP MN)				
Liquid Assets	274	239	36	15.02%
Gross Loans and Receivables	1234	1073	161	15.02%
Total Resources/Assets	1678	1445	233	16.15%
Deposits	1050	829	221	26.60%
Net Worth	504	491	12	2.53%
Selected Ratios				
Return on Equity	3.94%	-1.83%	5.77%	
Return on Assets	1.32%	-0.58%	1.90%	
Capital Adequacy Ratio	29.14%	30.98%	-1.84%	
Cost-to-Income Ratio	89.10%	103.00%	-13.90%	
Loan-to-Deposit Ratio	117.60%	129.00%	-11.40%	
Net Interest Margin	11.32%	13.00%	-1.68%	
NPL-Gross Ratio	6.60%	13.31%	-6.71%	
NPL-Net Ratio	1.30%	2.96%	-1.66%	
NPA Ratio	3.50%	4.53%	-1.03%	

RISK MANAGEMENT CULTURE AND PHILOSOPHY

RMB has kept its focus on two critical market segments, namely the micro and small enterprises. While these naturally encompass a wide range of business activities, the Bank has chosen to spend more time working with those involved in agricultural value chain activities. Traditionally, these are largely underserved by the formal financial services community since their activities are in the rural countryside. As such, agency banking has become the delivery mechanism of choice for RMB.

Since inception, RMB Management has embraced the following precepts:

- Prudential risk-taking and proactive exposure management for sustainable growth, capital adequacy and profitability.
- Alignment of standards with internationally accepted practices and regulations in the daily conduct of risk and performance management.
- A commitment to develop risk awareness across all operating units, promoting the highest standards of ethics and integrity, establishing a culture that emphasizes the importance of the risk process, sound internal control, and advocating the efficient use of capital.

The primary mission of RMB is to increase profitability of micro-entrepreneurs and small businessmen. This is achieved through a painstaking study of the intricacies of each business encountered via solicitation in the field. On a daily basis, RMB's Loan Account Specialists (LAS) are sent out to seek micro and small enterprises that will benefit from an infusion of working capital. They have been carefully trained to analyze cash flows and its effects on the business of additional borrowing. While the focus is on the business condition, the household is closely examined since earnings are naturally redirected towards education, medical bills, utilities and other expenses of the immediate and extended family.

As a contribution to financial inclusion, RMB has vigorously implemented an agricultural value chain financing program in the countryside. Further to financial inclusion efforts, an Agency Banking Initiative was implemented to bring financial services where it is needed most, in the communities where the unbanked live. Strong linkages with local businesses have provided agent platforms that provide these with increased customer traffic and fee- based income from banking transactions performed on RMB's behalf. Needless to say, Risk Awareness has been top-of-mind in the development and implementation of these processes.

RISK APPETITE AND STRATEGY

Loan Account Specialists have clear marching orders: seek out micro and small entrepreneurs who indicate an interest in borrowing additional working capital. Immerse themselves in the day-to-day operational subtleties while remaining focused on the big picture. Look at the family's requirements that will impact on the financial condition of the business. Establish the optimal amount of borrowing that will generate the greatest profitability based on existing conditions. Finally, answer the question – if this were your own money, would you be willing to lend it to the loan applicant?

The most important Key Risk Indicator for RMB's loan products is Portfolio-At-Risk (PAR). This is a red flag that signals possible errors in estimations of the optimal amount of debt the business should have taken on. This is measured as a missed payment of one day on any loan amortizations that are due. RMB's most successful loan account specialist have large portfolios with minimal to zero PAR. It is this zero-tolerance for delinquency that the Bank strives to impart on its operations group.

RMB has no appetite to lend to businesses involved in any vices. RMB avoids lending for consumption purposes. It protects itself from risks by limiting credit concentration to the current percentages per type of industry while attempting to grow its loan book.

RMB accepts short and medium-term deposits from the public. These are either lent out or placed in short term deposits with the BSP or the National Treasury. RMB does not lend to other Financial Institutions unless they are part of the RCBC group. At best, RMB maintains CASA deposits (for liquidity purposes) with other leading commercial banks in areas where there are no RCBC branches available.

ROLES AND RESPONSIBILITIES

BOARD OF DIRECTORS

The Board of Directors (BOD) responsibilities are to:

- Approve the risk management framework which covers the risk management principles, strategies, policies, process and controls recommended by the Chief Risk Officer.
- Define the risk philosophy, strategy, risk appetite and tolerances.
- Delegate risk management authority.
- Approve appropriate thresholds or limits and set out policy in resolving the limit breaches.
- Ensure that there is an established communication process of Risk Framework, risk appetite and tolerance from Senior Management to the first line process owners.

RISK OVERSIGHT COMMITTEE (ROC)

The Risk Management Department reports directly to the Risk Oversight Committee (ROC) of the Bank.

The ROC shall advise the Board of Directors on the bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the bank.

CHIEF RISK OFFICER (CRO)

The CRO shall be responsible for overseeing the risk management function and shall support the Board of Directors in the development of the risk appetite and risk appetite statement of the bank, and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

Further, the CRO shall be directly responsible in supervising the Operational Risk Management and Credit Risk Management Units of the bank.

OPERATIONAL RISK MANAGEMENT UNIT (ORMU)

The responsibilities of the ORM Unit are to:

- Define and establish Operational Risk Management methodology tools and risk reporting system.
- Challenge the effectiveness of risk identification, assessment, control monitoring and reporting activities across the Bank.
- Consolidate and report to the BOD all identified risk and risk incidents or issues of process owners reported to ORM unit.
- Propose proper policies and procedures to the BOD and Senior Management relating to Operational Risk Management and controls;
- Cascade operational risk management activities throughout the organization and facilitate training of the Business Units in proper assessment of ORM issues.
- Ensure that established risk controls are compliant with the applicable laws and regulations.
- Oversee implementation of internal controls.
- Report to BOD and Senior Management on the Bank's operating risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite.

CREDIT RISK MANAGEMENT UNIT (CRMU)

The responsibilities of the CRM Unit are to:

- Establish an appropriate credit risk environment and ensure that the bank is operating under a sound credit granting process.
- Maintain bank's appropriate credit administration, measurement, monitoring process and control process.
- Propose credit policies and procedures to the BOD and Senior Management relating to credit Risk Management and controls;
- Ensure that established credit risk controls are compliant with applicable laws and regulations.
- Report to BOD and Senior Management on the Bank's credit risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite.

RISK MANAGEMENT POLICY

Credit Risk

The Bangko Sentral has laid down the building blocks for the implementation of the Philippine Financial Reporting Standard 9 (PFRS 9) with the issuance of enhanced standards on credit risk management in 2014 and amendment of the definitions of past due and non- performing loans in 2017. In particular, Circular No. 855 (2014) emphasizes the importance of effective governance structure and risk management process in lending operations. It highlights that instituting sound credit risk management practices is a fundamental overlay in recognizing adequate and timely allowance for credit losses. The credit risk management guidelines also explicitly set forth the Bangko Sentral's expectations on the adoption of sound loan loss methodologies that consider expected credit losses (ECL). Circular No. 941 (2017), on the other hand, aligns the regulatory definitions of past due, non- performing, and restructured accounts with international benchmarks. The said issuance aims to clearly distinguish performing from non-performing accounts and promote consistent recognition of default across the industry.

The Credit Management Unit of RMB is responsible for the implementation of these credit risk management standards. Throughout the year, strict alignment with Circular 941 in terms of past due and nonperforming loans classification was done. In the provisioning for allowance for credit losses, RMB has also complied with the RCBC-wide Expected Credit Loss (ECL) methodology.

The ECL model considers past events, current conditions, and forecasts of future economic conditions in determining the allowance for credit losses. In contrast to Philippine Accounting Standards (PAS) 39, the ECL model requires early recognition of allowance for credit losses even before objective evidence of impairment becomes apparent. Thus, credit impairment is recognized over the life of the financial asset through stages: Stage 1, 2 and 3.

Stage 1 is when credit exposures are considered "performing" and bears no significant increase in credit risk from initial recognition or paving the way for the account to be classified as low credit risk. Stage 2 is when credit exposures are considered "under-performing" or when accounts are not yet non-performing but has a significant increase in credit risk from initial recognition. Lastly, Stage 3 is when credit exposures have objective evidence of impairment and are therefore considered as "non-performing"

The adoption of the ECL results in higher provisions especially upon first implementation as compared to the older regime under PAS 39. The increase came from Stage 1 and Stage 2 accounts. Facilities and credit exposures in Stage 1 are now required to be provided with a 12-month ECL while those classified under Stage 2 are already provided with lifetime ECL.

The ECL is a strict regime which pushed the bank further to enhance its credit risk management activities particularly with Portfolio-at-Risk reduction. It can be penal in terms of additional provisioning if the quality of loan portfolio of the bank continues to deteriorate or when PAR continues to increase, thus affecting the bank's financial performance results.

Market Risk Policy

Investments are limited to overnight and term deposit placements with BSP Treasury or Bureau of Treasury Instruments, and RCBC and its subsidiaries for term placements. Deposits with other BSP Supervised Financial Institutions (BSFI) are limited to demand or savings accounts and are strictly monitored by Treasury in terms of amounts. All deposits and investments require vetting by the Board of Directors, and each placement is individually approved.

Interest Rate Risk

All deposit products of RMB have a maturity of two years or less. All loan products have fixed interest rates for the term of the loan. Investments in other FI's or the National Government are limited to a maximum of 28-day terms. It is therefore the Bank's policy to find a balance between immunized earnings and economic value. This is communicated to the Executive Committee (Execom) monthly and to the Risk Oversight Committee and Board quarterly. Any divergence from approved lending rates requires authorization from the Branch Banking Group, President and confirmation of the Execom and/or Board.

Operational Risk Management

The Bank operates within a strong control environment focused on the protection of the bank's capital and earnings and allows the business to operate without exposure to unacceptable potential losses through the implementation of approved policies, sound processes, and reliable information technology systems.

Among others, robust controls include: segregation of duties, dual controls, approvals and authorization, exception reporting, sound technology infrastructure, product manuals, etc.

Below is the summary of the basic tools used by the Bank:

1. Incident Reporting (IR)

Incident Reporting is essential in the identification of operational risk issues or events in each business and operating unit. This must be reported to ORM Unit and appropriate stakeholders. This report assists the Bank in the execution of mitigating operational risks and ensuring that risks are communicated and reported.

2. Loss Reporting (LR)

Internal operational loss events reported by operating units provide information for assessing the bank's exposure to operational risk, effectiveness of internal controls and measures to minimize the recurrence and/or magnitude of loss events.

3. Risk and Control Self-Assessment (RCSA)

The RCSA is one of the common tools used by the Bank in identifying and assessing operational risks. The process involves the assessment by the operating units of its operations and activities, and identification of all possible risks (categorized in accordance with the Basel risk events) that said units may be exposed to. These risks shall be assessed as high, medium or low based on the degree of severity and probability (after considering the controls).

4.Key Risk Indicators (KRIs)

Key Risk Indicators (KRI's) are measurement used by the Bank to monitor current and potential exposure to various operational risks. These are quantifiable metrics to accurately evaluate and assess the potential risk exposure of business activities and processes which may lead to the determination of the impact it can convey to each unit of the Bank.

5. Control Sample Testing

To test effectiveness of internal control procedures, an independent party shall conduct control sample testing especially on critical or key processes. Frequency and sample size of the sample testing will be dependent on the criticality of the identified risks.

6. Business Continuity Plan (BCP)

Business Continuity and Disaster Recovery Plans are other examples of risk mitigant tools. BCP aims to establish a planned process, procedure or strategy that can assure and provide for the continuity of major and critical services and operations during any critical events which may impair the Bank from conducting normal business operations.

7. Consumer Protection

The Bank, consistent with its continuing commitment to provide consumer protection and satisfaction, adopts this Manual of Consumer Assistance Policies and Procedures to provide consumers with a mechanism through which they can seek redress for their complaints/concerns regarding the Bank's products and services.

Consumer education is also a priority, and product rollouts involve communicating to clientele the vagaries of their financial transactions and how they can be impacted on by these. Product material is also reviewed by the Department for alignment with prudential regulations covering clarity and brevity of product descriptions.

AML RISK MANAGEMENT FRAMEWORK

RMB's Board of Directors and Senior Management exercise active oversight on the bank's compliance with anti-money laundering and anti-terrorist financing laws, rules and regulations. The board has appointed a Chief Compliance Officer (CCO) who has a direct reporting line to the board through the Audit Committee. The CCO is primarily responsible for the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP).

The MTPP is comprehensive and risk-based, geared towards the promotion of high ethical and professional standards so that the bank may not be used, intentionally or unintentionally, for money laundering and terrorist financing. The Board requires regular review of policies and procedures covering the Bank's MTPP to ensure their relevance and compliance with prevailing standards.

RMB's compliance with AMLA is built upon a sound and rigorous "Know Your Client" (KYC) program. Composed of money laundering control policies and procedures, KYC is used to determine the true identity of a client and the type of activity that is normal and expected, and to detect any activity that may be considered unusual in relation to the client's profile. This also involves proper and regular monitoring of transactions.

To control and reduce risks associated with money laundering and terrorist financing, an automated system of identifying unusual or suspicious patterns of account activity has been established. Any unusual/ suspicious transactions are reported to the AML Committee of the Bank for its evaluation and final determination of whether the suspicion is based on reasonable grounds, for possible reporting to Anti- Money Laundering Council (AMLC).

Regular training of all Bank officers and employees is conducted to enable them to fulfill their obligations under the MTPP and AMLA, as amended, and its Revised Implementing Rules and Regulations (RIRR).

Finally, the Bank's Internal Audit Department is responsible for the periodic and independent evaluation of the bank's compliance with AMLA. It also evaluates compliance with the rules/procedures on covered and suspicious transaction reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

SUSTAINABLE FINANCING FRAMEWORK (INFORMATION ON SUSTAINABLE FINANCE)

RMB recognizes the presence of risks that may adversely influence the conditions of the country's financial stability. Following the direction undertaken by the Bangko Sentral ng Pilipinas, RMB has initiated steps to adopt an Environmental and Social Management Policy that would strengthen the implementation of sustainable practices across the institution. The policy encourages borrowers to adhere to the preservation and development of the natural, social, a cultural environment in accordance with the recommendations of the International Finance Corporation, Environmental Management Bureau, and other government agencies.

Following the proposed guidelines, new and existing borrowers whose operations may cause significant damage to the environment and society would need to undergo a more stringent credit evaluation and approval process. A database of accounts categorized based on their operational impact shall also be maintained and reported to the Risk Oversight Committee. Officers are also be trained and oriented to implement the bank's policy accurately and effectively.

In compliance with the said policy, the bank currently conducting a monthly loan portfolio analysis to assess the level of environmental and social risks and identify those exposures that requires monitoring due to high level of risk inherent to the conduct of their business operations.

Portfolio assessment is prepared on a granular basis which factors in the type of business activities of loan clients. Risk categorization is based on activities that contributes the major revenue to the business. This categorization also considers the purpose of loan application, the activities of the company, social concerns to be addressed or the size, type and location of the proposed investment. This.

Risk categorization follows the 2009 Philippine Standard Industrial Classification (PSIC) which classifies business activities according to the following risk levels: Low, Medium, Medium/High, and Exclusion.

Result as of December 2022 are as follows:

BANKWIDE					MICROENTERPRISE		REGULAR LOANS		REGULAR LOANS	
PSIC Risk Level	**# of Accounts**	**Php (In Millions)**	**% No. of Accts.**	**% in Php**	**# of Accounts**	**Php (In Millions)**	**# of Accounts**	**Php (In Millions)**	**# of Accounts**	**Php (In Millions)**
Low	1570	695.50	67%	55%	974	92.95	595	598.92	1	3.63
Medium	759	558.72	33%	44%	360	40.31	382	492.64	17	25.78
Medium/High	2	1.32	0%	0%	0	0.00	2	1.32	0	0.00
Exclusion	3	1.25	0%	0%	1	0.10	2	1.15	0	0.00
Total	**2334**	**1,256.79**	**100%**	**100%**	**1335**	**133.36**	**981**	**1,094.03**	**18**	**29.41**

As of December 2022, the bank's portfolio is composed of 2,334 accounts amounting to P1.256.79 Million with 67% (1570 accounts) of which are with business activities categorized as Low Risk. Around 33% (759 accounts) are with business activities categorized as Medium Risk. Accounts categorized as Medium/High and under Exclusion are composed of two (2) and three (3) accounts, respectively.

As per policy, RMB shall have zero exposure in projects identified as under Exclusion list however exceptions are as follows:

a. Existing accounts where the Bank has already an exposure in projects that are in the Exclusion List should not exceed the IFC-allowed limit, presently at 20% of the total Revenues or Income of the borrower.

b. Production/distribution of alcohol (except beer and wine), tobacco and gambling/gaming, casinos and equivalent enterprise, not exceeding the combined limit at 5% of the total loan portfolio of the Bank.

The Credit Risk Management Unit of the Bank is tasked to conduct the monthly portfolio assessment and results thereof are communicated to the Lending Groups for their appropriate action. The same is also reported quarterly for the knowledge of the Bank's Risk Oversight Committee.

INTEREST RATE GAP/ REPRICING GAP

The estimation of NII-at-risk starts with the Interest Rate Gap or Repricing Gap Report which measures market interest rate / profit rate exposures arising from mismatch in the repricing balances. The gap is prepared where interest rate sensitive assets, liabilities and off-balance sheet positions are distributed into a series of predefined time buckets based on the product's next repricing of remaining maturity. Balances within a time bucket are then summed to produce a gap position, where assets are reported as positive amounts and liabilities as negative amounts.

The level of risk exposure is measured by the size of the gap (i.e. the amount of repricing mismatch within a time bucket, and the length of the time gap is open).

CONSTRUCTION OF A REPRICING GAP

a. As a general rule, all assets, liabilities and off-balance sheet products booked in the Non Trading Book are to be included into the repricing gap according to its repricing date or remaining maturity, whichever is earlier.

b. The positions are allocated into the designated time buckets of the gap based on the repricing profile of each rate-sensitive product. A predefined tenor bucket as listed below is used. However, more granular time buckets can be applied for internal monitoring or regulatory requirement purposes.

No.	Time Bucket
1	Less than One Month
2	One to Three Months
3	Three Months to One Year
4	Two Years
5	Three Years
6	Four Years
7	Five Years
8	Beyond Five Years
9	Non-Rate-Sensitive Bucket

c. Repricing gap for each time bucket is computed by subtracting the total outflow from total inflow and can result in either positive of negative gap.

The major limitation of the use of repricing gap in measuring IRRBB is the inability to capture real-time repricing of balance sheet items as the positions are captured in the pre-defined tenor buckets. Also, it is a static approach without considering evolution of the balance sheet (e.g. new business assumptions, change in strategies, etc.

INTERPRETATION OF THE REPRICING GAP

- Gapping activities are part and parcel of banking business taking higher mismatch position may imply higher risk appetite and potential higher returns. A bank may have a positive, negative or neutral gap profile that can be interpreted as follows:

Interest Rate Gap	Description	Rising Interest Rates	Falling Interest Rates
Positive Gap	Rate sensitive assets reprice faster than rate sensitive liabilities	Opportunity	Risk
Negative Gap	Rate sensitive liabilities reprice faster than rate sensitive assets	Risk	Opportunity
Neutral Gap	Rate sensitive assets equal rate sensitive liabilities	Not free of interest rate risk. Still exposed to basis risk.	

LIMITATIONS OF THE REPRICING GAP

- The major limitation of the use of repricing gap in measuring IRRBB is the inability to capture real-time repricing of balance sheet items as the positions are captured in the pre-defined tenor buckets. Also, it is a static approach without considering evolution of the balance sheet (e.g. new business assumptions, change in strategies, etc.)

SAMPLE REPORT

RIZAL MICROBANK- INTEREST RATE GAP As of December 31, 2022 (In Millions PHP)	Less than one month	One to three months	Three months to one year	Two years	Three years to five years	More than five years	Non-Rate Sensitive	Total
Resources								
Cash (COCI)	-	-	-	-	-	-	12.75	12.75
Placements (Due from BSP & Other Banks)	105.95	-	-	-	-	-	155.69	261.63
Total Investments (invs. Sec. & Equity Inv)	-	-	-	-	-	-	26.11	26.11
Total Loans (L & R)	87.51	306.88	331.02	205.56	262.36	2.13	76.14	1,271.61
Other Resources (all others)	-	-	-	-	-		112.12	112.12
Total Resources	193.46	306.88	331.02	205.56	262.36	2.13	382.81	1,684.22
Liabilities & Capital Funds								
Deposit Liabilities	265.92	291.28	171.03	3.03	-	-	318.70	1,049.95
Contractual	-	-	-	-		-	110.54	110.54
Savings Deposits	-	-	-	-	-	-	159.75	159.75
Demand Deposits	-	-	-	-	-	-	48.41	48.41
Term Deposits	265.92	291.28	171.03	3.03	-	-		731.26
Accrued Interest Payable	-	-	-	-	-	-	4.20	4.20
Accrued Taxes and Other Expenses	-	-	-	-	-	-	12.01	12.01
Other Liabilities	-	-	-	-	-	-	102.15	102.15
Total Liabilities	265.92	291.28	171.03	3.03	-	-	437.06	1,168.32
Capital Funds							515.91	515.91
Total Liabilities and Capital Funds	265.92	291.28	171.03	3.03	-	-	952.97	1,684.22
On-book gap	(72.46)	15.60	160.00	202.53	262.36	2.13	(570.15)	(0.00)
Cumulative on-book gap	(72.46)	(56.86)	103.13	305.66	568.02	570.15	(0.00)	(0.00)
Contingent Resources	-	-	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	-	-	-	-
Total gap	-	-	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-	-	-
Cumulative total gap	(72.46)	(56.86)	103.13	305.66	568.02	570.15	(0.00)	(0.00)
NET INTEREST MARGIN	11.32%	11.32%	11.32%	11.32%	11.32%	11.32%		
Interest Income	(8.20)	1.77	18.11	22.93	29.70	0.24		64.54
Deposits Reprcing	0.00%	0.75%	1.00%	1.00%	1.00%	1.00%		
Loans Repricing	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%		
ADJUSTED NIM	11.32%	10.57%	12.32%	12.32%	12.32%	12.32%		
Adjusted Interest Income	(8.20)	1.65	19.71	24.95	32.32	0.26		70.69
EARNINGS SENSITIVITY								6.15

LIQUIDITY STRESS TESTING METHODOLOGY (LST)

Liquidity Stress Testing (LST) is a forward looking assessment of the Bank's resilience to a series of extreme yet plausible scenarios. These events are economic occurrences which may have an effect on the liquidity position of the Bank. Stressing on a liquidity event provides the Bank a better understanding of weaknesses and vulnerabilities in the financial system and can be an important input into the Bank's planning decisions.

The objectives of LST are as follows:

- Identify vulnerabilities to external shocks, fine tune the liquidity / funding strategies and build up effectual contingency
- Determine the amount of liquidity buffer required for potential liquidity shocks and for better management of liquidity buffers
- Determine the contingency planning and shape the strategy and tactics to manage events of liquidity stress
- Engage the Risk Oversight Committee (ROC) and the Assets and Liabilities Management Committee (ALCO) participation in taking proactive measures based on the stress test results and integrate stress testing outputs into decision making process

Liquidity Stress Testing Methodology

The LST Methodology is formulated taking into account the Bank's business operating model as well as Bangko Sentral ng Pilipinas (BSP) Liquidity Coverage Ratio (LCR) requirements and other standards outlined in BSP Circulars 981: Guidelines on Liquidity Risk Management, and 989: Guidelines on the Conduct of Stress Testing Exercises. In general, the process and principles underlying stress testing is discussed in the Stress Testing Framework.

The LST Methodology is structured into the following building blocks:

1. **Identifying Key Risk Drivers**

    - Key risk drivers which are defined as portfolio or exposure more that 5% of balance sheet size or key components of funding source, are identified for portfolios that are deemed to have material impact.

2. **Devising Stress Scenarios**

    - The stress scenarios are designed to incorporate major funding and liquidity risks that the Parent Bank might be exposed to. The following are three major liquidity events as specified in BSP Circular 981.

Stress Testing Scenario:

Type of Event/ Stress Scenario	Definition
Institution Specific Crisis (ISC)	This is a situation whereby liquidity challenges are name specific. This may arise from loss of public confidence in either the Bank or its subsidiaries and affiliates. As a result, mass withdrawal of depositors and LFP is assumed. Also, credit worthiness of the Bank is compromised.
General Market Crisis (GMC)	This is a situation where systemic liquidity problems are experienced at the market / industry level due to major financial debacle, economic crisis or other catastrophic event. This may be characterized by a market-wide liquidity squeeze, substantial discounts needed to sell or repo assets, settlements disruptions affecting one or more payment or settlement systems.
Combined Crisis (CC)	This is a situation where ISC and GMC scenarios are experienced simultaneously by RCBC. It can be a global crisis which is affecting the financial institutions industry (globally or regionally) and also has name-specific challenges for RCBC.

SAMPLE REPORT

Rizal MicroBank, Inc. LIQUIDITY STRESS GAP SUMMARY GENERAL MARKET December 31, 2022					
	Total	**20%**	**30%**	**40%**	**
	(In Php)	**Withdrawal**	**Withdrawal**	**Withdrawal**	
Asset					
INTERBANK (Cash, DFOB, DDA)	168,441,492	168,441,492	168,441,492	168,441,492	**1 month**
IBCL /RRP & ODF	105,946,353	52,973,177	52,973,177	52,973,177	**50% reduction**
LOANS & RECEIVABLES	1,249,298,682	-	-	-	**0% loan payoff**
TOTAL ASSETS	**1,523,686,527**	**221,414,668**	**221,414,668**	**221,414,668**	
LESS:					
TOTAL DEPOSITS	1,049,954,749	209,990,949.74	314,986,424.60	419,981,899.47	
AVAILABLE FUND	**473,731,778**	**11,423,718**	**(93,571,756)**	**(198,567,231)**	
ADD / DEDUCT:					
OTHERS					**Pay-off of 1 Mo Interbank Borrowings**
LINES AVAILABLE*	200,000,000				**100% Line reduction**
TOTAL AVAILABLE FUNDING	**673,731,778**	**11,423,718**	**(93,571,756)**	**(198,567,231)**	

Rizal MicroBank, Inc. LIQUIDITY STRESS GAP SUMMARY INSTITUTION-SPECIFIC December 31, 2022					
	Total	**20%**	**30%**	**40%**	**
	(In Php)	**Withdrawal**	**Withdrawal**	**Withdrawal**	
Asset					
INTERBANK (Cash, DFOB, DDA)	168,441,492	168,441,492	168,441,492	168,441,492	**1 month**
IBCL /RRP & ODF	105,946,353	84,757,082	84,757,082	84,757,082	**80% (20% reduction)**
LOANS & RECEIVABLES	1,249,298,682	124,929,868	124,929,868	124,929,868	**10% loan payoff**
TOTAL ASSETS	**1,523,686,527**	**378,128,442**	**378,128,442**	**378,128,442**	
LESS:					
TOTAL DEPOSITS	1,049,954,749	209,990,949.74	524,977,374.34	629,972,849.21	**20% withdrawal**
AVAILABLE FUND	**473,731,778**	**168,137,493**	**(146,848,932)**	**(251,844,407)**	
ADD / DEDUCT:					
OTHERS					**Pay-off of 1 Mo Interbank Borrowings**
LINES AVAILABLE*	200,000,000	100,000,000	100,000,000	100,000,000	**50% line reduction**
TOTAL AVAILABLE FUNDING	**673,731,778**	**268,137,493**	**(46,848,932)**	**(151,844,407)**	

Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (LCR) Report shows the LCR of the Bank which is the ratio of highly-liquid assets over net cash outflows. This ratio is used to measure if the Bank can meet or settle their short-term obligations.

This is accomplished and submitted within 15 banking days after the end of the reference month to BSP.

Source Documents:

Document	**Process Owner**
Schedule of Deposit Liabilities (enhanced)	Accounting Supervisor – RRCU
FRP SOCSIE BS	Accounting Supervisor – RRCU
FRP LOANS 39	Accounting Supervisor – RRCU
FRP DEPLIAB 22	Accounting Supervisor – RRCU

Sample Report AS OF December 31, 2022

PART I. CALCULATION OF LIQUIDITY COVERAGE RATIO (In Absolute Amount)		
Item Nature of Item	**Weighted Amount**	
A. Total Stock of High-Quality Liquid Assets (After Cap) [Net of A.3 and A4]		**150,387,488.30**
A.1 Stock of Level 1 Assets	**150,387,488.30**	
A.2 Stock of Level 2 Assets	**0.00**	
A.3 Total Stock of High Quality Liquid Assets (Before Cap) [Sum of A.1 and A.2]	**150,387,488.30**	
A.4 Adjustment for 40% Cap on Level 2 Assets	**0.00**	
B. Total Net Cash Outflows [Net of B.1 and B.2]		**79,122,800.41**
B.1 Total Expected Cash Outflows	**126,907,455.09**	
B.2 Total Expected Cash Inflows Before Ceiling	**47,784,654.69**	
B.3 Adjustment for 75% Ceiling on Cash Inflows	**0.00**	
B.4 Total Expected Cash Inflows After Ceiling	**47,784,654.69**	
C. LIQUIDITY COVERAGE RATIO [A/B]		**190.07%**

Net Stable Funding Ratio (NSFR)

For the long-term resilience of the bank against liquidity risk, it shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The Net Stable Funding Ratio (NSFR) seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off balance sheet accounts. The NSFR complements the Liquidity coverage Ratio which promotes short term resilience of the bank's liquidity profile.

Frequency of Submission is monthly and the deadline is 15 banking/business days from BSP measurement date.

Source Documents:

Document	Process Owner
Trial Balance	Accounting Supervisor
Loans as to Maturity Report	Accounting Head
CAR Report	Accounting Head
Schedule of Deposits	Next bank System

Sample Report AS OF December 31, 2022

CALCULATION OF NET STABLE FUNDING RATIO (In Absolute Amount)	
Item	
A. Available Stable Funding	**1,442,725,298.22**
Capital	483,688,670.39
Retail Deposits	959,036,627.83
Wholesale Deposits	0.00
Secured and Unsecured Funding	0.00
Other Liabilities and Equities	0.00
B. Required Stable Funding	**1,000,060,482.53**
NSFR High-Quality Liquid Assets (HQLA)	0.00
Deposits Held at other Financial Instutions	62,000,178.19
Performing Loans and Non-HQLA Securities	618,074,759.03
Other assets	319,985,545.31
Off-Balance Sheet Exposures	0.00
C. Net Stable Funding Ratio [A/B]	**1.44**

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The corporate governance of Rizal MicroBank is anchored on the principles of fairness, responsibility, transparency and accountability. The Board of Directors is committed to these principles to guide the Bank in the pursuit of its corporate goals through policies and practices that are consistent with applicable banking laws, rules, regulations and industry best practices.

The Board of Directors is primarily responsible for overseeing the management and governance of the Bank. It is responsible for monitoring the performance of Senior Management to ensure the effective implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. Its principal objective is to protect the interests of its stakeholders and create value for them.

The Board is composed of nine members who are elected by the stockholders. There are three independent directors which constitute 1/3 of the total number of board members, which is the minimum requirement of the BSP.

The President is the only executive director of the Bank. This ensures the independence of the Board from the views of senior management. Majority of the non-executive directors are seasoned bankers, thus possessing the qualifications and stature that enable them to effectively participate in the deliberations of the Board.

The directors elected in the annual meeting of the stockholders serve a one-year term and until their successors are elected and qualified. Any vacancy in the board occurring for any reason other than by removal of a director by the stockholders or by the expiration of term may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum. A director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

1. The Corporate Governance Committee shortlists all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications enumerated in the Bank's Manual of Corporate Governance and the prevailing BSP regulations. The Committee likewise reviews and evaluates the qualifications of persons nominated to officership positions requiring appointment by the Board of Directors.

2. The following factors are considered by the Committee in determining whether a person is fit and proper for the position of a director:

    a. integrity/probity;
    b. physical/mental fitness;
    c. relevant education/financial literacy/ training;
    d. possession of competencies relevant to the job, such as knowledge/experience, skills, diligence, and independence of mind; and
    e. availability of time to fully carry out responsibilities.

3. In determining the optimum number of positions which a nominee may hold, the Committee considers the following guidelines:

    a. nature of the business of the corporations where he is a director;
    b. age of the Director;
    c. number of directorships/active memberships and officerships in other corporations or organizations; and
    d. possible conflict of interest.

4. For officership positions, the following factors are considered in determining whether the person is fit and proper to be an officer:

    a. integrity/probity;
    b. education/training;
    c. possession of competencies relevant to the function, such as knowledge and experience, skills and diligence

BOARD'S OVERALL RESPONSIBILITY

The Board is responsible for approving the Bank's strategic objectives and business plans, taking into consideration the Bank's long-term financial goals, risk tolerance level, and effective management of risks. It has established a system of measuring performance against targets through regular monitoring and has ensured that actions are taken to correct shortfalls.

The Board also ensures that the Bank observes a high standard of integrity in its dealings with the public. It sets the tone of good governance at the top by upholding sound corporate values, codes of conduct and instilling the culture of compliance in itself, the senior management and other employees. It oversees the implementation of the Bank's whistleblowing policy which aims to inculcate moral uprightness among bank personnel and give them the confidence to raise concerns related to fraud or irregularity in the workplace.

The Board is also responsible for the selection of members of senior management and heads of control functions, and the monitoring of their performance.

At the same time, the Board is responsible for approving and overseeing the implementation of the Bank's corporate governance framework. This involves defining the governance structure and practices such as:

- The conduct of regular board meetings that promote critical discussion of issues,
- Creation of board-level committees, development of policies on internal and external commitments of directors,
- Access of directors to financial information, performance evaluation of the board, the committees, the President, and the individual directors;
- Development of remuneration and retirement policies, corporate governance policies, and policies on the handling of related party transactions.

As discussed, the board is responsible for approving and overseeing the implementation of the bank's risk governance framework. This involves defining the risk appetite; adherence to the risk appetite statement, risk policy and risk limits; policies and procedures on risk management; and defining the organizational responsibilities following the three lines of defense framework: the business units, the risk management and compliance functions, and the internal audit functions.

Finally, the Bank continuously provides products and services that support the national economy.

THE CHAIRMAN OF THE BOARD

The Chairman leads the Board of Directors. He is mainly responsible for the proper governance of the Bank and decides on all matters included in the agenda of the stockholders and BOD meetings. He is responsible for ensuring the effective functioning of the board, including maintaining a relationship of trust with board members. He encourages and promotes regular attendance and active participation and involvement in critical discussions, and enables the discussion of dissenting views during deliberations. He ensures that all members of the Board are given sufficient information and time to study carefully and responsibly issues that are taken up in board meetings.

BOARD COMPOSITION*

Name of Director	Type of Directorship (executive, non-executive, independent)	Number of years served as director	Number of Direct and indirect shares held	Percentage of shares held to total outsanding shares
Eugene Acevedo*	Non-executive	3	1	0%
John Thomas Deveras*	Non-executive	14	1	0%
Raymundo Roxas*	Executive	7	1	0%
Dennis Bancod*	Non-executive	10	1	0%
Zenaida Torres*	Non-executive	10	1	0%
Alfredo del Rosario, Jr.*	Non-executive	10	1	0%
Ma. Angela E. Ignacio*	Independent	1	1	0%
Vicente LL. Ramirez Jr.*	Independent	1	1	0%
Gener T. Mendoza**	Independent	1	1	0%
Leticia A. Moreno**	Independent	3 mos.	1	0%

* Rizal Microbank is a fully owned subsidiary of RCBC. As such all directors are nominated by RCBC as approved during the Annual Stockholders meeting in April 29, 2022.
**Director Mendoza was replaced by Director Moreno effective September 12, 2022

EXECUTIVE COMMITTEE

Executive Committee		Mar - R	May - R	June - R	Aug - R	Sept - R	TOTAL	ATTENDANCE	
John Thomas Deveras	Chairman	P	P	P	P	P	5	5	100%
Alfredo del Rosario, Jr.	Member	P	P	P	P	P	5	5	100%
Dennis Bancod	Member	P	P	P	P	P	5	5	100%
Raymundo Roxas	Member	P	P	P	P	P	5	5	100%
Zenaida Torres	Member	P	P	P	P	P	5	5	100%

LIST OF BOARD-LEVEL COMMITTEE

Audit Committee

Audit Committee		Jan - R	Apr - R	July - R	Oct - R	TOTAL	ATTENDANCE	
Ma. Angela E. Ignacio	Chairman	P	P	P	P	4	4	100%
John Thomas Deveras	Member	P	P	P	P	4	4	100%
Zenaida Torres	Member	P	P	P	P	4	4	100%
Vicente LL. Ramirez Jr.	Member	P	P	P	P	4	4	100%
Gener T. Mendoza*	Member	P	P	A		3	2	67%
Leticia A. Moreno*	Member				P	1	1	100%

*Director Mendoza was replaced by Director Moreno effective September 12, 2022

The Audit Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the Chairman. They possess accounting, auditing or related financial management expertise/ experience.

The members of the Audit Committee are:

a. Ma. Angela E. Ignacio - Chairman
b. John Thomas G. Deveras – Member
c. Zenaida F. Torres - Member
d. Vicente LL. Ramirez, Jr. - Member
e. Leticia A. Moreno - Member

The core responsibilities of the Audit Committee include the following:

- To oversee bank's financial reporting policies, practices and control to ensure the preparation of reports that are accurate, complete, and timely.

- To oversee the internal and external audit functions. It is responsible for setting up the internal audit department and the appointment of the internal auditor and the independent external auditor who both report directly to the audit committee. It likewise reviews and approves the engagement contract with the external auditor.

- To monitor and evaluate the adequacy and effectiveness of the Bank's compliance, internal control and risk management systems. It ensures that a periodic review of said systems is done at least annually to identify weaknesses and evaluate their robustness considering the bank's risk profile and strategic direction.

- To review and approve the audit scope and frequency to ensure that the scope covers areas specifically prescribed by the Bangko Sentral and other regulators. Based on the audit reports, it ensures that Senior Management is taking the necessary measures to correct the weaknesses, violation of policies, banking laws, rules and regulations, and other issues cited by auditors

- To have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meeting.

- To establish and maintain whistleblowing mechanisms by which officers and staff can, without fear of reprisal, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to a person or independent entity which has the authority to rectify the anomaly. It ensures that channels and procedures are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of the reported irregularity.

Corporate Governance Committee

Corporate Governance Committee		Jan - R	Apr - R	July - R	Oct - R	TOTAL	ATTENDANCE	
Vicente LL. Ramirez Jr.	Chairman	P	P	P	P	1	4	100%
Alfredo del Rosario, Jr.	Member	P	P	P	P	1	4	100%
Zenaida Torres	Member	P	P	P	P	1	4	100%
Ma. Angela E. Ignacio	Member	P	P	P	P	1	4	100%
Gener T. Mendoza*	Member	P	P	A		3	2	67%
Leticia A. Moreno*	Member				P	1	1	100%

*Director Mendoza was replaced by Director Moreno effective September 12, 2022

The Corporate Governance Committee is composed of five members of the Board of Directors, all of whom are nonexecutive directors. Three are independent directors, including the chairperson. The committee has a written charter that describes the duties and responsibilities of its members.

The members of the Corporate Governance Committee are as follows:

a. Vicente LL. Ramirez Jr. – Chairman
b. Alfredo S. Del Rosario – Member
c. Zenaida F. Torres - Member
d. Ma. Angela E. Ignacio - Member
e. Leticia A. Moreno - Member

The functions of the Corporate Governance Committee include the following:

- To oversee the periodic performance evaluation of the Board and its committees and executive management, and to conduct an annual self-evaluation of its performance.
- To oversee the continuing education of directors, and thus, ensure the allocation of adequate time and resources.
- To make recommendations to the Board of Directors regarding board committees assignments, as well as succession plans for the board members and senior officers.
- To oversee the design and operation of the remuneration and incentives policy to ensure that it operates and achieves the goals as planned.
- To review and evaluate the qualifications of candidates nominated to become members of the Board of Directors and persons nominated to officership positions requiring appointment by the Board.

Risk Oversight Committee

Risk Oversight Committee		Jan - R	Apr - R	July - R	Oct - R	TOTAL	ATTENDANCE	
Gener T. Mendoza*	Chairman	P	P	A		3	2	67%
Leticia A. Moreno*	Chairman				P	1	1	100%
John Thomas Deveras	Member	P	P	P	P	4	4	100%
Zenaida F. Torres	Member	P	P	P	P	4	4	100%
Ma. Angela E. Ignacio	Member	P	P	P	P	4	4	100%
Vicente LL. Ramirez Jr.	Member	P	P	P	P	4	4	100%

*Director Mendoza was replaced by Director Moreno effective September 12, 2022

The Risk Oversight Committee is composed of five members of the Board of Directors, all of whom are nonexecutive directors. Three are independent directors, including the chairperson. The members of the Risk Oversight Committee possess a range of expertise as well as adequate knowledge on risk management issues and practices that enable them to develop appropriate strategies for preventing or mitigating losses.

As of December 31, 2022, the members of the Risk Oversight Committee are as follows:

a. Leticia A. Moreno - Chairman
b. John Thomas G. Deveras - Member
c. Zenaida F. Torres - Member
d. Ma. Angela E. Ignacio - Member
e. Vicente LL. Ramirez Jr. - Member

In general, the Risk Oversight Committee is responsible for the development and oversight of the bank's risk management program.

The core responsibilities of the Risk Oversight Committee include the following:

- To oversee the risk governance framework of the Bank. It periodically reviews the risk governance processes and ensures that appropriate measures are being taken to attain a judicious balance between risk and reward in both current and new business activities.

- To define 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 board. It ensures that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite.

- To oversee the risk governance function. It is responsible for the appointment of the Chief Risk Officer. It ensures that the risk management function has adequate resources to enable it to oversee the risk-taking activities of the bank.

- To report regularly to the Board of Directors on the Bank's over-all risk exposure and actions taken to mitigate the risks, and to recommend further action or plans as necessary.

Related Party Transactions Committee

Related Party Transactions Committee		Jan - R	Total	Attendance	
Ma. Angela E. Ignacio	Chairman	P	1	1	100%
Vicente LL. Ramirez Jr.	Member	P	1	1	100%
Gener T. Mendoza	Member	P	1	1	100%

* Director Mendoza was replaced by Director Moreno effective September 12, 2022.

The Related Party Transactions (RPT) Committee is composed of three (3) members of the Board of Directors, all of whom are independent directors. The committee ensures that related party transactions are conducted at arm's length basis or on terms no less favorable to the Bank than terms available to any unrelated third party under the same or similar circumstances.

As of December 31, 2022, the members of the RPT committee are as follows:

a. Ma. Angela E. Ignacio - Chairman
b. Vicente LL. Ramirez Jr. - Member
c. Gener T. Mendoza, *who was replaced by Leticia A. Moreno effective on September 12, 2022*

The duties and responsibilities of the RPT Committee include the following:

- To evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, transactions are monitored, and subsequent changes in relationships with counterparties are captured.

- To evaluate material related party transactions to ensure that the terms and conditions are also available to unrelated parties under similar circumstances.

- To ensure transparency and full disclosure of RPT transactions to the BSP.
- To report to the board of directors on a regular basis, the status and aggregate exposures to each related party and the total amount of exposures to all related parties
- To ensure that policies and procedures are in place for the regular reporting by banking units of their existing RPTs as well as potential RPTs.
- To ensure that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit.
- To oversee the implementation of the system of identifying, monitoring, measuring, controlling and reporting RPTs.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Board of Directors Meeting		Jan - R	Feb - S	Apr - R	Apr - O	July - R	Oct - R	Nov - S	TOTAL	ATTENDANCE	
Eugene Acevedo	Chairman	P	P	P	P	P	P	P	7	7	100%
John Thomas Deveras	Vice-Chairman	P	P	P	P	P	P	P	7	7	100%
Raymundo Roxas	Member	P	P	P	P	P	P	P	7	7	100%
Dennis Bancod	Member	P	P	P	P	P	P	A	7	6	86%
Zenaida Torres	Member	P	P	P	P	P	P	P	7	7	100%
Alfredo del Rosario, Jr.	Member	P	P	P	P	P	A	P	7	6	86%
Ma. Angela E. Ignacio	Member	P	P	P	P	P	P	P	7	7	100%
Vicente LL. Ramirez Jr.	Member	P	P	P	P	P	P	P	7	7	100%
Gener T. Mendoza*	Member	P	P	P	P	A			5	4	80%
Leticia A. Moreno*	Member						A	P	2	1	50%

*Director Mendoza was replaced by Director Moreno effective September 12, 2022

PERFORMANCE ASSESSMENT PROGRAM

The Corporate Governance Committee oversees the periodic performance evaluation of the Board of Directors, board-level committees and the President.

The Board of Directors conducts an annual self-assessment of the Board as a whole, of themselves as individual members and as members of the Board committees. Each member of the committee assesses the performance of the other members and the committee as a whole. This includes an evaluation of the exercise of independent judgment, integrity and objectivity of each member and of the Board as a whole. The Board likewise assesses the performance of the President.

Further, the assessment of the Audit Committee's performance complies with SEC Memorandum Circular No. 4, s. 2012- "Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed in the Exchange." The performance of the External Auditor is also subject to assessment.

ORIENTATION AND EDUCATION PROGRAM

Employee education, learning and development are essential to the Bank's growth strategy as it is constantly challenged to deal and cope with the demands and pressure brought by rapidly changing environment. The Human Resources Department, with the support of the Management Committee, continues to provide learning and development activities for the employees in pursuit of the Bank's commitment to strengthen employees' competencies across all job levels.

By ensuring that the Bank staff and officers are trained, as well as immersed in best practices to provide the exceptional quality of service to its clients, the Human Resources Department, in coordination with Senior Management, focused on providing various skills- based training programs to continue honing skills and building capacities. These programs include (1) the enhanced employee orientation for new hires to equip them with product and technical knowledge, as well as bank's policy awareness; (2) customer care; (3) account specialists' technical trainings; (4) branch services and support personnel trainings; (5) credit management trainings; and consultative selling for bank officers ; (6) business communication skills; (7) programs designed to help employees comply with regulatory requirements; and (8) mental health topics such as emotional intelligence, among others. The Bank also nominated employees to attend external training programs on treasury, marketing, internal auditing; data analytics, basic life support, first aid training, occupational safety and health, as well as other remote learning programs related to compliance and risk management. Further, the Bank also ensured that employees are continuously apprised on the updated circulars and regulations by conducting electronic learning sessions on Anti-Money Laundering, Information Security Awareness, Bank Security Awareness, Data Privacy Act, Financial Consumer Protection, Sustainability and its Key Components were made available for all employees.

Rizal MicroBank Directors and Senior Officers attended 2022's Online Corporate Governance Training. This is one of the learning opportunities for directors and executives to update and refresh their knowledge which will enable them to fulfill their roles. Directors also received briefings on relevant policies and updates on certain BSP regulation and circulars, as well as the bank's strategic initiatives and plans.

RETIREMENT AND SUCCESSION POLICY

The elected directors shall hold office for a term of one year and until their successors shall have been duly elected and qualified. To add, Rizal MicroBank's three independent directors have been observing the term limits stated in the Bangko Sentral ng Pilipinas' Circular No. 969 dated 22 August 2017.

In addition, the Bank provides financial security to employees even after their retirement through its retirement benefit plan. The employee's retirement date shall be one day after the 60th birthday, and completion of at least ten years of credited service for the purpose of qualification for retirement benefit.

Also, our Board understands that the Bank must continually evolve and restructure its business to remain ahead of strategic, market, technology, and regulatory shifts. The Board and senior management must also respond to and anticipate future changes and challenges. In this regard, our Board is regularly refreshed in a continuing cycle. The Corporate Governance Committee work within a general board succession plan framework to ensure that: 1) appropriate governance processes are in place and ongoing, for identifying, assessing and monitoring future needs of the Board; 2) there is continuity and transfer of knowledge in the Board so that it may effectively fulfill its role and responsibilities to Rizal MicroBank, Inc. as that may evolve over time, and; 3) the Board is taking a prudent and structured approach to managing succession risk. The Corporate Governance Committee assists in the annual review and assessment of the structure, size and composition of the Board and Board-level committees. The committee takes into consideration the Bank's current strategy and business, regulatory requirements on independence and diversity, as well as comparative benchmark analysis. The Committee may also review the Board's forecasted membership requirements over the next three to five years, based on factors such as directorship limits, diversity policy, and retirement policy for directors, and term limits for independent directors.

In terms of Senior Management succession, in consultation with the President, the Human Resources Department reviews the Bank's talent development process for proper management. Senior management provides annual bench analysis report and development plans based on the results of its performance appraisal process for key management positions and high-potential individuals who were identified as potential successors. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's senior management succession planning.

REMUNERATION POLICY

To encourage sustainable value creation within the organization, Rizal MicroBank, Inc. is committed to provide salaries or compensation consistent with job performance standards, the requirements of the law, and in a range that is competitive with the other thrift or rural banks across the country.

The Board of Directors has the authority to determine level of remuneration and/or benefits for directors, as well as the President's, sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role. Each director is entitled to receive fees and per diems for his or her services as a director, as stated in RMB's by-laws, for each occasion of attendance at meetings of the Board or of Board Committee. This is applicable as well for directors who are compensated as full- time officers of the RCBC Group.

For Senior Management, Officers and Staff, the President, in coordination with Human Resources Department, ensures that the pay appropriately reflects the Bank's financial performance and individual job performance. The Bank also ensures that it offers competitive compensation package which is aligned with performance standards and has pay differentials for different types of work and job levels based on the board approved salary structure. On top of that, the Bank provides incentives and rewards for performing employees which contributed to the overall business objectives and targets.

In consultation with the parent bank's Human Resources Group, Rizal MicroBank, Inc. ensures that each job is rated properly and continuously as they change over time due to reconfiguration of functions or reorganizations after a thorough job evaluation.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

Related Party refers to:

a. Directors, Officers, Stockholders, and Related Interests (DOSRI) as defined under BSP regulations;

b. Close family members of the Bank's directors, officers and stockholders;

c. The Bank's subsidiaries, affiliates and any party that CORPORATE GOVERNANCE the Bank exerts direct/ indirect control over or that exerts direct/indirect control over the Bank;

d. Corresponding persons in affiliated companies which refer to the DOS of the companies and their relatives within the second degree of consanguinity and affinity;

e. Other members of the Yuchengco Group of Companies (YGC) that are not classified as DOSRI, subsidiary or affiliate.

f. Entities with direct or indirect linkages to the Bank

g. Members of the Advisory Board of the Bank; and

h. Subsidiaries of related parties.

Policies pertaining to Related Party Transactions are as follows:

- The Bank's Code of Conduct shall include a provision mandating all employees to report any potential related party transactions.
- To ensure fairness and arm's length terms of RPTs, the Bank shall set parameters for selecting similarly situated non-related party accounts for benchmarking purposes, and shall put in place an effective price discovery mechanism.
- Business units handling accounts/transactions of a related party, as well as officers and employees who may be a party in a related party transaction have the responsibility to notify the Compliance Office of such transactions as soon as they become aware of it. Also, non-related parties with outstanding transactions who subsequently become related must likewise be reported to the Compliance Office.
- The Compliance Office shall conduct a preliminary review of a proposed transaction submitted by business unit to ensure compliance with BSP rules and regulations, and then forward it to the Management Committee or the RPT Committee, depending on the materiality of the amount of the transaction.
- The business units of the Bank shall maintain and regularly update their inventory of related parties and related party transactions. The inventory shall reflect the names of the related parties, relationship, and present employment/ affiliation (for natural persons). The business units shall also monitor the status and aggregate exposure to each related party as well as the total amount of exposure to all related parties.
- The business units shall submit a quarterly report to the Compliance Office which contains the updated inventory and exposures to related parties. This, in turn, shall be reported by the Compliance Office to the RPT Committee.

CONGLEMERATE STRUCTURE

MATERIAL RPTS

Transactions with related parties involving amounts of at least Pesos: Five Million (P5,000,000.00) shall be considered material RPTs.

The Board of Directors shall delegate to a Management Committee the review and approval of Related Party Transactions where the amount involved is below the materiality threshold of Pesos: Five Million (P5,000,000.00), unless the transaction requires board approval (e.g. loan and/or credit accommodations to DOSRI, subsidiaries and affiliates; real estate transactions with DOSRI; cross-selling and outsourcing), in which case, the transaction shall be submitted to the RPT Committee for its evaluation and endorsement to the Board for approval.

Related Party Transactions where the amount involved is at least Pesos: Five Million (P5,000,000.00) shall be evaluated by the RPT Committee and endorsed to the Board for approval. Transactions with DOSRI regardless of amount shall likewise be reviewed and endorsed by the Committee for Board approval.

Related Party Transactions where the amount involved is at least Pesos: Five Million (P5,000,000.00) and all DOSRI transactions regardless of amount, shall be approved by the Board upon endorsement by the RPT Committee. In determining whether to approve a Related Party Transaction, the Board shall be guided by the report of the RPT Committee as well as any other relevant information that may be made available to it upon its request.

Related Party Transactions that were approved by the Management Committee shall be subject to Board confirmation.

Bank's Responsibilities on Disclosure of RPTs

• To submit quarterly reports on material related party transactions to the parent Bank's RPT Committee for consolidation with the parent Bank's own report to the BSP. Material RPTs are transactions involving amounts of Php5,000,000 and above.

• To disclose all RPTs in the Bank's financial, operational, and annual reports as well as in the reports filed with the applicable regulatory body to the extent required by applicable rules and regulations.

• To disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

• To adequately disclose in its Annual Report its policies and procedures for managing Related Party Transactions, including managing conflicts of interest or potential conflicts of interest, and responsibility of the RPT Committee.

SELF-ASSESSMENT FUNCTION

The Internal Audit Function

The Bank maintains an Internal Audit function which aims to add value and improve the organization's operations. Internal auditing is an independent, objective assurance and consulting activity designed to help the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. It ascertains the adequacy and effectiveness of the Bank's management over risks, control and process. Internal Audit shall provide reasonable assurance that internal controls of the bank are in place.

The Board of Directors through the Audit Committee provides authority to Internal Audit to have unrestricted access to all bank records, physical properties, personnel and functions. Further, the Board allows Internal Audit to seek any other information from any Bank officer and employee and other external sources. The established authority is used solely in relevance to the performance of the engagement.

The Bank's Internal Audit Function encompasses the assessment, evaluation and contribution to the improvement of governance, risk management and control processes. Thus, the Internal Audit examines all business systems, processes, operation, function and activities within the Bank, which includes:

1. Assisting the Bank in identifying and evaluating significant risk exposures and contribute to the improvement of risk management and control systems.

2. Evaluating the risk exposures and adequacy of controls relating to and encompassing the Bank's governance, operations and information systems regarding the:

    a. Reliability and integrity of financial and operational information
    b. Effectiveness and efficiency of operations
    c. Safeguarding assets
    d. Compliance with laws, regulations and contracts

3. Ascertaining whether objectives and goals established by management conform to those of the Bank and whether they are being met.

Internal Audit reports directly and functionally to the Bank's Board of Directors through its Audit Committee and administratively to the Bank's President. The Audit Committee performs oversight functions over the Bank's internal and external auditors including external service providers of permitted outsourced audit activities. It ensures that the internal and external auditors act independently of each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. The Audit Committee likewise reviews the reports submitted by the internal and external auditors as well as those submitted by external service providers.

The Compliance Function

The Compliance Function is an independent function that identifies, assesses, mitigates, advises on, monitors and reports on the Bank's business and compliance risks, i.e. the risk of legal or regulatory sanctions, financial loss, or reputational loss a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

It has the authority, on its own initiative, to communicate with any staff member and obtain access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities. It is free to investigate possible breaches of the compliance manual and report on any irregularities or breaches of laws, rules and regulations discovered without fear of retaliation or disfavor from management or other affected parties.

Role of the Compliance Office:

1. To oversee the design of an appropriate compliance system, promote its effective implementation, and address breaches that may arise and ensure a bank-wide compliance culture such that compliance standards are understood and observed by all bank associates.

2. To monitor bank's compliance with relevant banking laws, rules and regulations including the Anti-Money Laundering Act (AMLA) to maintain a high degree of regulatory compliance, thus, avoiding penalties/ sanctions from regulatory agencies.

3. To ensure the integrity and accuracy of all documentary submissions to BSP through independent validation and timely and accurate submission of all reports to regulators.

4. To conduct preliminary evaluation of suspicious transactions reports and convene the Anti-Money Laundering (AML) Committee of the Bank when necessary for the final determination of the grounds for reporting to the AMLC.

5. To identify and assess material breaches of the compliance program, conduct investigations of possible breaches and properly address these within the mechanisms defined by the Compliance Program, and perform risk-based compliance assurance review and other procedures to ensure the effectiveness of the compliance program in achieving its objectives.

6. To monitor corrections of all the exceptions noted during BSP audit and compliance testing on units to ensure no recurrence of findings.

7. To ensure timely dissemination of BSP circulars and other regulatory issuances to all concerned units.

8. To provide periodical and regular compliance reports that will:

    a. Provide the Board of Directors through the Audit Committee with Quarterly Activity Reports of the Compliance Office to apprise them of the Bank's state of compliance, and the impact of violation of banking laws, rules and regulations;

    b. Provide concerned officers of business centers/ departments with the report on the results of monitoring and risk-based compliance review conducted by the Compliance Office.

    c. Provide Senior Management and the Board of Directors through the Audit Committee, with the BSP Reports of Examination (Head Office and branches) together with the replies/action taken to correct them by the concerned units.

DIVIDEND POLICY

In accrodance with the Bank's policy, dividends may be declared annually or oftener as the Board of Directors may determine. The board shall declare dividends only from the surplus profits of the Bank after making proper provisions for the necessary reserves in accordance with banking laws, and rules and regulations of the Bangko Sentral ng Pilipinas.

No dividends were declared by the Bank during the year.

CONSUMER PROTECTION PRACTICES

Board of Directors and Senior Management

The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies adopting a mechanism to ensure compliance therewith. It is also responsible for developing and maintaining a sound Consumer Protection Risk Management System (CPRMS) and monitoring and overseeing, thru the Risk Oversight Committee, the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

Senior Management, on the other hand, is responsible for developing policies and procedures on consumer protection which are compliant with the requirements of the BSP and existing consumer protection laws, rules and regulations, ensuring their faithful implementation by all Bank officers and staff, and performing other duties and responsibilities delegated by the Board with regard to financial consumer protection.

The Consumer Protection Risk Management System

The Consumer Protection Risk Management System (CPRMS), which is part of the bank-wide Risk Management System of RMB, provides the foundation for Bank's adherence to consumer protection standards of conduct, and compliance with consumer protection laws, rules and regulations. It is proportionate to the nature and scope of operations, size, and risk profile of the Bank.

The Bank's CPRMS has the following components:

1. Board and Senior Management Oversight of the CPRMS – The Board and Senior Management are responsible for reviewing on a periodic basis the effectiveness of the CPRMS, including how findings are reported and the timeliness of said reports to the Board/Risk Oversight Committee, and whether the audit mechanisms in place enable adequate oversight.

2. Compliance Program – The Compliance Office has integrated the Consumer Protection Compliance Program into the over-all compliance program of the Bank. It forms part of the monitoring, testing, and reporting activities of the Compliance Office.

3. Policies and Procedures – The bank's consumer protection policies and procedures are compliant with the requirements of existing laws, rules and regulations on consumer protection. These are embedded in the Bank's business operations, reviewed periodically and kept updated as these serve as reference by employees in their day-to-day activities.

4. Internal Audit Function – The Internal Audit Department reviews Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations on financial consumer protection.

5. Risk Management Function – The Risk Management Department (RMD) provides guidance to business units in accomplishing the Risk and Control Self-Assessment (RCSA) for consumer protection as a mechanism to identify, measure, and monitor inherent consumer protection compliance risks, and evaluate Bank's procedures to control and mitigate these risks.

6. Training – The Human Resources Department provides personnel whose roles and responsibilities involve customer interaction, with adequate training on the proper implementation of written policies and procedures on consumer protection.

Consumer Assistance Management System

The Bank has developed a Manual of Consumer Assistance Policies and Procedures (complaints handling manual) to provide consumers with a mechanism through which they can seek redress for their complaints/concerns regarding the Bank's products and services.

RMB has designated all of its branch operations officers as Customer Assistance Officers reporting to the Risk Management Department. The Board has direct oversight on Consumer Protection and is responsible for seeing that RMB Senior Management and staff are responsive to Consumer concerns. All branches of RMB have clearly marked feedback boxes and are provided pen and paper for writing in any customer complaints. All branches likewise have a standee with a photograph, name, number and email address of the Customer Assistance Officer of the branch and the contact details of the Chief Risk Officer. This additional channel to the Chief Risk Officer, who is in charge of Consumer Protection for the bank, is provided as an option to bank's clientele if for any reason they do not want to submit a complaint to the branch personnel. On a monthly basis, the Risk Management Department requires submission of Consumer Complaints Reports on a nil reporting basis, to ensure that the Complaints Handling Manual of RMB is followed to the letter. Any incidents reported will be relayed to the Risk Oversight Committee and the Board of Directors during its Quarterly meetings. Since implementation in February 2016, the system is effective in receiving customer queries and feedback, which were endorsed to the appropriate offices for their respective actions.

The following table shows the timelines imposed by the bank on the handling of customer complaints:

PROCESSING OF COMPLAINT	SIMPLE*	COMPLEX*
Acknowledgement	Within 2 days**	Within 2 days**
Processing and resolution (assess, investigate and resolve)	Within 7 days**	Within 45 days**

* Simple complaint/request – a complaint/request where frontline staff solution or immediate explanation or action can be rendered.

* Complex complaint/request – a complaint/ request which needs assessment, verification, or investigation with third party intervention.

* *Reckoned from date of receipt of complaint*

BOARD OF DIRECTORS

EUGENE S. ACEVEDO
Chairman, Non-Executive Director
58 years of age, Filipino
BS Physics (Magna Cum Laude), University of San Carlos;
Master's in Business Management, Asian Institute of Management

Mr. Acevedo is the President and Chief Executive Officer of the parent bank, Rizal Commercial Banking Corporation.

He has over 30 years of banking experience gained from local and multinational banks including Union Bank of the Philippines, City Savings Bank, Philippine National Bank, and Citibank Philippines, N.A. He has a Master's degree in Business Administration from the Asian Institute of Management and completed an Advanced Management Program at the Harvard Business School. He also holds a Professional Certificate in Clean Power from the Imperial College London. He is a magna cum laude graduate from the University of San Carlos where he earned a degree in Bachelor of Science in Physics. Training/continuing education include: Corporate Governance Orientation Program (ICD); Sustainability Reporting, and Customer Due Diligence and Trade-Based Money Laundering (RCBC); Best Practices to Manage ML/TF Risks from Online Sexual Exploitation of Children Coursed through Banks and MSBs, and ML/TF Typologies (ABCOMP and BAIPHIL); BSP Supervisory Assessment Framework to replace CAMELS and ROCA Rating Systems for BSFIs (ABCOMP and BAIPHIL); Building Better Bankers: Fostering a Stronger KYE Program (ABCOMP); Leveraging on FinTech: Financial Services Under the New Economy Arrangement (ABCOMP).

JOHN THOMAS G. DEVERAS
Vice Chairman, Non-Executive Director
59 years of age, Filipino
BS Management Engineering, Ateneo De Manila University;
Master's in Business Administration, University of Chicago

Mr. John Thomas G. Deveras assumed the Presidency of the Bank in 2009. In 2012, he relinquished the position and was appointed as Vice Chairman of the Board and Chairman of the Executive Committee. He is currently the Head of Strategic Initiatives and Asset Management & Remedial Group of RCBC. He is also Chairman/Director of RCBC Rental Corporation, RCBC Leasing and Finance Corporation, and Niyog Property Holdings, Inc.

Before joining the RCBC Group, Mr. Deveras worked as an Investment Officer of the International Finance Corporation (IFC). Prior to that, he was Senior Vice President/Head, Remedial Management Group of the Philippine National Bank (PNB) and President of PNB Capital.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016.

RAYMUNDO C. ROXAS
President, Executive Director
54 years of age, Filipino
BS Psychology (Cum Laude), Lyceum of the Philippines;
AB Philosophy, San Pablo Major Seminary

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development- Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International-Inner Mongolia, and Microfinance Department Head & Technical Assistant to the General Manager of First Isabela Cooperative Bank. Inc.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.

REDENTOR C. BANCOD
Non-Executive Director
58 years of age, Filipino

AB Philosophy, University of the Philippines; MS Information Management (candidate), Ateneo De Manila University; Executive MBA, Kellogg School of Business and Hongkong University of Science and Technology; post graduate studies at the Asian Institute of Management.

Mr. Redentor C. Bancod has been a director of the Bank for 11 years. He is the Chief of Staff of RCBC and concurrently heads the Information Technology Shared Services Group and Operations Group of RCBC, with the rank of Senior Executive Vice President. He is also a director of RCBC Telemoney Europe, RCBC North America, Inc., RCBC International Finance, Ltd. and RCBC Investment, Ltd.

Before joining the Bank, Mr. Bancod was Vice President and General Manager, Central Systems Asia of Sun Life Financial, Asia and Chief Technology Officer of Sun Life of Canada (Philippines), Inc. He also served as Chief Technology Officer of Equitable-PCI Bank.

In 2013, Mr. Bancod was recognized as one of the top CIOs in Asia by International Data Group (IDG). He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

ZENAIDA F. TORRES
Non-Executive Director
67 years of age, Filipino
BSBA Accounting, University of the East Certified Public Accountant

Ms. Zenaida F. Torres has been a director of the Bank for nine (9) years. She is also a director of Niyog Property Holdings, Inc. and Rizal Equities, Inc. She works as Consultant of the House of Investments. Inc.

She was formerly the Head of Controllership Group of Rizal Commercial Banking Corporation, and director of Manchester Land Properties, Inc.

She attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019. She also attended the following seminars: IFRS 9-Business Impact and Benefits of Early Adoption, Blue Ocean Strategy, and IFRS vs. Tax Laws and Regulations.

ALFREDO S. DEL ROSARIO, JR.
Non-Executive Director
66 years of age, Filipino

BS Management, Ateneo De Manila University; Master's in Business Administration (Units), Ateneo Graduate School, Juris Doctor (units), Ateneo Law School

Mr. Alfredo S. Del Rosario Jr. has been a non-executive director of the Bank for 4 years. He is a member of the Bank's Executive Committee and the Corporate Governance Committee. He has been President and CEO of Philippine Realty and Development Corporation since 2016.

Mr. Del Rosario was Chairman & President of RCBC-JPL Holding Company, Inc., Director/Vice President of Niyog Property Holdings, Inc., and Executive Vice President for Special Projects of RCBC.

Before joining the Bank, Mr. Del Rosario was Group Head of RCBC with the rank of Executive Vice President. He was also a director of Pres. Jose P. Laurel Rural Bank, Inc.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

MA. ANGELA E. IGNACIO
Independent Director
49 years of age, Filipino

BS Applied Economics and BS Commerce Major in Management of Financial Institutions, De La Salle University; Master's degree in Applied Finance, University of Melbourne

Ms. Ignacio also completed the Emerging Leaders Program of Harvard University - Kennedy School of Government in 2014, and is a fellow of the Institute of Corporate Directors.

To date, she holds directorships in RCBC Leasing and Finance Corporation, RCBC Rental Corporation, Esna Holdings and Esna Realty & Development Corporation, Ayala REIT Fund Managers, Inc., PH Resorts Inc., Glacier Megafridge Inc. and Sureserv Inc. She also serves as the Managing Director for Polestrom Consulting Inc. and Avisez Asia, Inc.

VICENTE LL. RAMIREZ, JR.
Independent Director
76 years of age, Filipino
BA English, Ateneo de Naga University

Mr. Ramirez is currently an Independent Director for RCBC Leasing and Finance Corporation, RCBC Rental Corporation, and Metro Combined Logistics Solutions. He was the former President and Director of Japan-PNB Equipment Rentals Corporation, former Executive Vice President and concurrent Treasurer for Japan-PNB Leasing and Finance Corporation.

LETICIA A. MORENO
Independent Director
62 years of age, Filipino
BS Business Economics, University of the Philippines – Diliman;
Masters of Business Administration, University of the Philippines – Diliman

Ms. Moreno has more than 30 years of professional experience in the banking industry before she officially retired in 2020. She also worked with Development Academy of the Philippines and Economic Support Fund as a Project Officer.

Currently, apart from her directorship with Rizal Mirobank, Inc., she was also appointed as an Independent Director of VistaReit, Inc. and RCBC Leasing and Finance Corporation.

JOSEPH DANIEL N. LUMAIN
Corporate Secretary
29 years of age, Filipino

Mr. Joseph Daniel N. Lumain has nine years of professional experience in strategic management in both the public and private sector.

Prior to joining the bank, he founded a social enterprise that supports more than 100 indigenous weavers across the Philippines. As Chief Operating Officer and Social Enterprise Director from 2014 to 2018, he supervised his company's community development programs, and concurrently served as the Head of Finance and Retail Operations. Previous to that, he served as an Executive Assistant VI under the Strategic Management Group of the Governance Commission for GOCCs, and assisted in the regulation of government-owned financial institutions in the country.

He graduated from the Ateneo de Manila University in 2014 with a Bachelor's Degree in Legal Management, with minor degrees in Development Management and Sociology. He has also earned his Master's degree in Public Management from the same university in 2016.

EXECUTIVE OFFICERS

RIZAL MicroBank
A Thrift Bank of RCBC

RAYMUNDO C. ROXAS
President
Executive Director

EMELITA B. ROCERO
Senior Vice President
Head of Regular Lending Group

LIBERTINE B. CUBIO
First Vice President
Mindanao Area Lending Head

EXECUTIVE OFFICERS

MARIA HAZEL F. VELASCO
Vice President
Luzon and Visayas Area Lending Head

JOSEPH DANIEL N. LUMAIN
Assistant Vice President
Head, Microfinance and Financial Inclusion Group, Corporate Planning and Marketing Department
Concurrent Corporate Secretary

JEAN MELODY N. BESA
Assistant Vice President
Head of Internal Audit Department

EXECUTIVE OFFICERS

MITCHELLE P. ADOBAS
Assistant Vice President
Head of Microenterprise Lending Department

ROWLAND V. MOSCARDON
Senior Manager
Project Director - IT Department

FLERIDA GRACIA B. YU
Manager
Deputy Compliance Officer

EXECUTIVE OFFICERS

MA. BEVERLY O. UY
Manager
Human Resources Officer

TERESITA D. SARMIENTO
Manager
Head of Branch Services and Support Department

NESTORIO D. DELA CRUZ, JR.
Manager
Head of Accounting Department

EXECUTIVE OFFICERS

NORWEL C. DE ROXAS
Senior Assistant Manager
Chief Risk Officer

AVA A. DIAMANTE
Assistant Manager
Acting Treasurer

EXECUTIVE OFFICERS

EXECUTIVE OFFICERS

RAYMUNDO C. ROXAS

President
Executive Director
54 years of age, Filipino

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

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He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

EMELITA B. ROCERO

Senior Vice President
Head of Regular Lending Group
52 years of age, Filipino

Ms. Emelita B. Rocero has over 15 years of combined experience in commercial and microfinance lending. Prior to assuming her current position, she was Head of Credit Support and Administration with the rank of Vice President.

Before joining the Bank, she worked under the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS) from year 2000 to 2010, her last position being as a Regional Coordinator for the Visayas. Previous to that, she worked as Consultant/Microfinance Department Head at Valiant Rural Bank, Inc.

She completed the required academic units for her Master's in Business Administration course Major in Corporate Management from the University of Southeastern Philippines, Davao City; and earned her BS degree in Commerce, Major in Accounting from the University of Mindanao, Davao City. She graduated at the top of her class in the Middle Management Development Program of De La Salle University Center for Professional Development in Business, RCBC Plaza.

LIBERTINE B. CUBIO

First Vice President
Mindanao Area Lending Head
48 years of age, Filipino

Ms. Libertine B. Cubio has twenty one (21) years of professional experience in the banking industry, eighteen (18) of which is with the microfinance industry. Further, she has eighteen (18) years of experience in credit underwriting, three (3) years in auditing and seventeen (17) years in handling supervisory to managerial positions. Last April 2012, she joined Rizal MicroBank, Inc. as the Area Lending Head for Mindanao. Prior to RMB, she was connected with FAIR Bank, Cebu as the Vice President for Operations.

Ms. Cubio is a graduate of Bachelor of Science in Accountancy at University of Immaculate Conception, Davao City.

MA. HAZEL F. VELASCO

Vice President
Luzon Area Lending Head
45 years of age, Filipino

Ms. Maria Hazel Fulgueras-Velasco has twenty (20) years of professional experience in the banking industry, eleven (11) of which is with the microfinance, small business and agricultural lending sector. Also, she has nine (9) years of combined experience in Audit, Compliance, Finance and Comptrollership. She started her banking career as the Audit and Compliance Head, twenty (20) years of her banking service is in a managerial position. Last April 2012, she joined Rizal MicroBank, Inc. as the AVP for Luzon Area Operations. Prior to RMB, she was connected with President Jose P. Laurel Rural Bank, Inc, as VP Microfinance Head. Moreover, she was a public audit practitioner as Senior Auditor at Carlos J. Valdes and Associates, CPA's, and was also involved in the Academe as a Part-time Professor for Accountancy, Tax and Auditing subjects.

Ms. Fulgueras-Velasco is a graduate of Bachelor of Science in Accountancy, at Tomas Claudio Colleges; she is a licensed Certified Public Accountant by profession since 1998.

JOSEPH DANIEL N. LUMAIN

Assistant Vice President
Head, Microfinance and Financial Inclusion Group,
Corporate Planning and Marketing Department
Concurrent Business Information Officer
29 years of age, Filipino

Mr. Joseph Daniel N. Lumain has more than seven years of professional experience in strategic management in both the public and private sector.

Prior to joining the bank, he founded a social enterprise that supports more than 100 indigenous weavers across the Philippines. As Chief Operating Officer and Social Enterprise Director from 2014 to 2018, he supervised his company's community development programs, and concurrently served as the Head of Finance and Retail Operations. Previous to that, he served as an Executive Assistant VI under the Strategic Management Group of the

Governance Commission for GOCCs, and assisted in the regulation of government-owned financial institutions in the country.

He graduated from the Ateneo de Manila University in 2014 with a Bachelor's Degree in Legal Management, with minor degrees in Development Management and Sociology. He has also earned his Master's degree in Public Management from the same university in 2016.

JEAN MELODY P. NARANJO

Assistant Vice President
Head of Internal Audit Department
30 years of age, Filipino

Ms. Jean Melody P. Naranjo joined the Bank in 2014 as Internal Audit Examiner. She was appointed as Acting Head of Internal Audit in April 2016 and then as full-fledged Head of Internal Audit in October of the same year. In October 2017, she was appointed as Chief Compliance Officer in a concurrent capacity.

Prior to joining the Bank, she was Part-Time Instructor at the Christian Colleges of Southeast Asia, and Accounting/Audit Staff at Balidio Auditing and Accounting Office. Ms. Naranjo holds a Bachelor's degree in Accountancy from the University of Mindanao and is a Certified Public Accountant.

MITCHELLE P. ADOBAS

Assistant Vice President
Head of Microenterprise Lending Department
47 years of age, Filipino

Mrs. Mitchelle P. Adobas has eighteen (18) years of professional experience in the banking industry, seventeen (17) of which is with the microfinance industry. Also, she has fifteen (15) years of experience in credit underwriting and fourteen (14) years in a managerial position. Last October 2019, she joined Rizal MicroBank, Inc. as the Head of Microfinance Department. Prior to RMB, she was connected with Malayan Bank as a Branch Manager of Davao, as well as with Enterprise Bank, Inc.

Mrs. Adobas is a graduate of Bachelor of Science in Business Administration Major in Marketing Management at Philippine School of Business Administration, Manila.

ROWLAND V. MOSCARDON

Senior Manager
Project Director - IT Department
51 years of age, Filipino

Mr. Rowland V. Moscardon has more than 25 years of experience in Information Technology - more than 24 years with Rizal Commercial Banking Corporation and almost 2 years with Union Bank of the Philippines.

Mr. Moscardon has been into project management since 2012, applications development since 2003, IT systems support since 1999 and Information Management Systems since 1996.

Mr. Moscardon has been managing the IT projects and supporting the IT requirements of Rizal MicroBank (RMB) since 2012. He has been managing and supporting RMB's Core Banking System (CBS), other application concerns, compliance to IT standards and information securities and various IT infrastructure needs.

Mr. Moscardon's most recent project was the migration of RMB's CBS to cloud-based platform in October 2019.

Prior to being assigned to supporting RMB, Mr. Moscardon was involved in RCBC's migration from Financial Management System (FMS) to Oracle Enterprise in 2011.

Mr. Moscardon was assigned as an Industrial Engineer in the Information Technology Group of the Union Bank of the Philippines in 1994, specifically to assist in the implementation of Systematics.

FLERIDA GRACIA B. YU

Manager
Deputy Compliance Officer
34 years of age, Filipino

Ms. Flerida Gracia B. Yu has joined the Bank last September 2020 as Deputy Compliance Officer. She has four (4) years of working experience in legal and compliance. Prior to working with Rizal MicroBank, Inc., she was working at Villa & Cruz, Attorneys-at-Law as a Legal Assistant who is primarily responsible in attending labor and arbitral concerns and drafting memorandums. Her legal background was an advantage in performing her most recent role as Legal, Compliance and Data Privacy Officer of Appsolutely, Inc, a mobile app developer which offers financial services. She spearheaded the application for a cryptocurrency license from Bangko Sentral ng Pilipinas and oversees the regulatory and tax compliance of the company. Further, she was able to draft the manual of policies for Data Privacy Act and KYC (Know Your Client).

Ms. Yu is a graduate of BS Commerce, Major in Legal Management in De La Salle University, Manila, and Bachelor of Laws in San Beda College, Alabang.

MA. BEVERLY O. UY

Manager
Human Resources Officer
34 years of age, Filipino

Ms. Ma. Beverly O. Uy has more than ten years of experience in the human resources field with various industries. In 2014, she joined Rizal MicroBank as Recruitment and Training Specialist and in 2016, she was appointed as the Human Resources Officer.

Prior to Rizal MicroBank, she worked with LTS Pinnacle Holdings, Inc. as Recruitment Specialist, and Convergys Philippines as Applicant Relations Coordinator.

Ms. Uy is a Registered Psychometrician and graduate of Bachelor of Arts Major in Psychology with three units in Human Resource Management at Ateneo de Davao

University. She also earned units MS Psychology with specialization in Industrial/ Organizational Psychology in the same institution. Further, she completed the Middle Management Development Program of RCBC's Leadership University in partnership with De La Salle University.

TERESITA C. SARMIENTO

Manager
Head of Branch Services and Support Department
48 years of age, Filipino

Ms. Sarmiento has twenty-four (24) years of professional experience in the banking industry and joined Rizal MicroBank, Inc. last April 2012. Prior to her appointment as Head of the Branch Services and Support Department, she was the Branch Head of RMB Laurel and was able to gain eleven (11) years of experience in a managerial position and at the same time, managing the microfinance processes and business loans of the Branch.

She is a graduate of BS Commerce Major in Management at Tanauan Institute, Batangas and Masters in Public Administration at Polytechnic University of the Philippines.

NESTORIO D. DELA CRUZ, JR.

Manager
Head of Accounting Department
28 years of age, Filipino

Mr. Nestorio dela Cruz Jr. joined the Bank as the Head of the Accounting Department in 2022. He has nine (9) years of working experience in the field of tax and accounting. Prior to working with Rizal MicroBank Inc., Mr. dela Cruz was the Accounting Manager of Aldiz Incorporated, an importer and distributor of agri-chemicals in the Philippines. He successfully implemented the transition from a semi-manual to a fully-automated ERP system (SAP Business One) before leaving the said company.

He graduated with a Bachelor's Degree in Accountancy from the University of Mindanao in 2014 and passed the CPA Licensure Examination the same year.

NORWEL C. DE ROXAS

Senior Assistant Manager
Chief Risk Officer
31 years of age, Filipino

Mr. De Roxas has joined Rizal MicroBank, Inc in 2017 as a Credit Analyst. In 2020, he was transferred to Corporate Planning and Strategic Partnerships Group as a Corporate Planning Specialist under before he was appointed as the Acting Chief Risk Officer in 2021.

He is a Certified Public Accountant and a graduate of Bachelor of Science in Accountancy at University of Southern Mindanao.

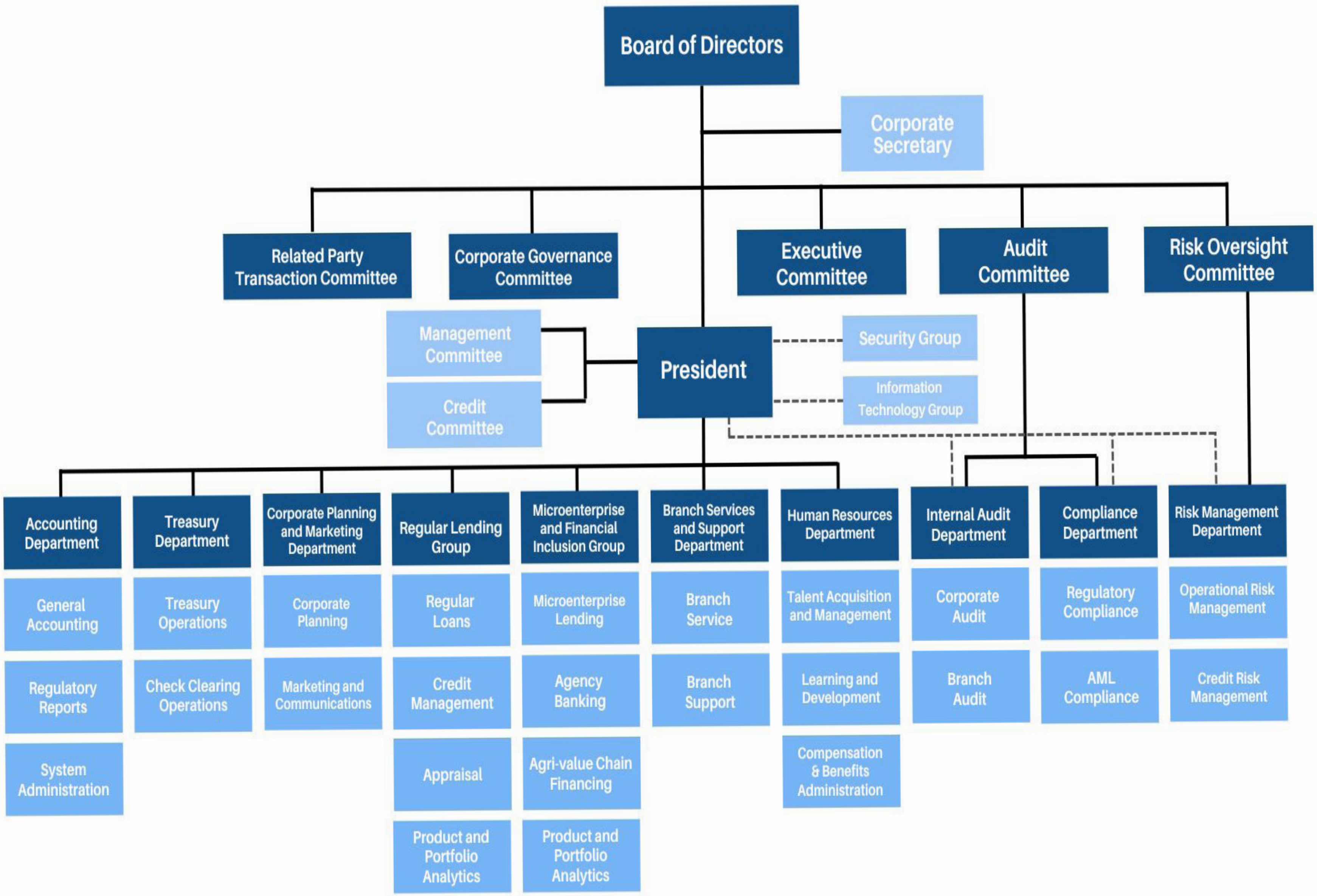
AVA A. DIAMANTE

Assistant Manager
Acting Treasurer
31 years of age, Filipino

In line with Treasurer Mariano Jose Laurel's mandatory retirement in June 2022, Ms. Diamante has been appointed as Acting Treasurer under a developmental assignment

She is a graduate of BS Accountancy at Divine Word College of San Jose, Occidental Mindoro in 2013. She has eight (8) years of professional experience in treasury operations. She was first employed by Rizal MicroBank, Inc. as Customer Service Assistant – Teller of RMB San Jose in 2013. In 2014, she joined Treasury Department as Treasury Assistant and was then promoted as Treasury Operations Officer in 2020.

TABLE OF ORGANIZATION



COPORATE SOCIAL RESPONSIBILITY

RIZAL MicroBank
A Thrift Bank of RCBC

CORPORATE SOCIAL RESPONSIBILITY (CSR) RESPONSIBILITIES

In support of DepEd's call to conduct in-person classes again, Rizal MicroBank Inc. participated in 2022's Brigada Eskwela Campaign with a theme, "RMB, tumutugon sa hamon ng ligtas na balik-aral".

In August 2022, the Bank had chosen Magsico Elementary School, located at San Francisco, Cebu, as this year's beneficiary. This school is located in a remote area which was severely hit by Typhoon Odette.

The Bank earnestly hopes that the 410 students of Magsico Elementary School could have classrooms conducive for learning.

YGC Christmas Fund Drive

Living the core values of Malasakit, Rizal MicroBank, Inc. has once again participated to YGC's Christmas Fund Drive, in partnership with Caritas Manila, to fund gift certificates and rice packs for the less fortunate families or those identified as homeless, internally displaced individuals and families facing crisis. In 2022, the families living in the slums of Tondo, as well as the parishioners in Laguna, Kalookan, Malolos, Pasig, Marikina and Antipolo were the target recipients. Each family-beneficiary received P1, 000.00 worth of gift certificates and some bigger families had additional packed meals.

CAPITAL STRUCTURE & ADEQUACY

RIZAL MicroBank
A Thrift Bank of RCBC

The capital adequacy ratio of the Bank as reported to the BSP as of December 31, 2022 and 2021 under Basel 3 framework are shown in the table below.

(In Millions)

	2022	2021
CET 1 Capital	482	462
Tier 1 Capital	482	462
Tier 2 Capital	2	11
Total Qualifying Capital	**484**	**474**
Credit Risk Weighted Assets	1,275	1,131
Market Risk Weighted Assets	-	-
Operational Risk Weighted Assets	385	399
Risk Weighted Assets	**1,660**	**1,529**
Total Capital Adequacy Ratio	**29.14%**	**30.98%**
Tier 1 Capital Adequacy Ratio	**29.05%**	**30.23%**
Common Equity Tier 1 Ratio	**29.05%**	**30.23%**
Capital Conservation Buffer	**23.05%**	**24.23%**

The regulatory qualifying capital of the Bank consists of Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital less regulatory deductions . The components of qualifying capital as of December 31, 2022 and 2021 are as follows:

	2022	2021
Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital		
Paid up common stock	1,126	1,126
Additional paid in capital	-	-
Retained Earnings	(655)	(646)
Undivided profits	20	(9)
Other Comprehensive Income		
Net unrealized gains or losses on AFS securities	20	17
Cumulative foreign currency translation	-	-
Remeasurement of Net Defined Benefit Liability/(Asset)	5	0
Minority interest in subsidiary financial allied undertaking which are less than wholly owned		
Common Equity Tier 1 (CET1) Capital	**516**	**489**

	2022	2021
Less: Regulatory Adjustments to CET1 Capital		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	-	-
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	-	-
Deferred tax assets	-	-
Goodwill	-	-
Other Intangible Assets	2	3
Defined benefit pension fund assets (liabilities)	6	0
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers brokers and insurance companies), after deducting related goodwill, if any	-	-
Other equity investments in non-financial allied undertakings and non-allied undertakings	26	23

Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	-	-
Total Regulatory Adjustments to CET1 Capital	34	27
Total Common Equity Tier 1 Capital	**482**	**462**
Additional Tier 1 (AT1) Capital		
Instruments issued by the bank that are eligible as AT1 Capital	-	-
Less: Regulatory Adjustments to AT1 Capital		
Total Additional Tier 1 (AT1) Capital	**-**	**-**
Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital	**482**	**462**
Tier 2 Capital		
Instruments issued by the bank that are eligible as Tier 2 capital	-	-
General loan loss provision	2	11
Total Tier 2 capital	2	11
Less: Regulatory Adjustments to Tier 2 Capital		
Total Tier 2 Capital	2	11
Total Qualifying Capital	484	474

** Formula as per above Ratios:

a.) Total Capital Adequacy Ratio = Total Qualifying Capital	484	474
Risk Weighted Assets	1,660	1,529
	29.14%	**30.98%**
b.) Tier 1 Capital Adequacy Ratio = Tier 1 Capital	482	462
Risk Weighted Assets	1,660	1,529
	29.05%	**30.23%**
c.) Common Equity Tier 1 Ratio = CET 1 Capital	482	462
Risk Weighted Assets	1,660	1,529
	29.05%	30.23%
d.) Capital Conservation Buffer = CET 1 Ratio - 6%		
Common Equity Tier 1 Ratio	29.05%	30.23%
Less: CET 1 of at least 6% of Risk Weighted Assets	6%	6%
	23.05%	24.23%

Full Reconciliation of all Regulatory Capital Elements and Regulatory Adjustments/Deductions

(In Millions)

	2022					2021				
	FRP	BASEL III				FRP	BASEL III			
FRP Equity Accounts		CET1 Capital	Additional Tier 1	Tier 2 Capital	Total Basel III Capital		CET1 Capital	Additional Tier 1	Tier 2 Capital	Total Basel III Capital
Paid in Capital Stock	1,126	1,126	-		1,126	1,126	1,126	-		1,126
Common Stock	1,126	1,126			1,126	1,126	1,126			1,126
Perpetual and Non-Cumulative Preferred Stock										
Additional Paid-in Capital										
Other Equity Instruments (Hybrid Tier 1)	-				-	-				-
Retained Earnings	(655)	(655)			(655)	(646)	(646)			(646)
Undivided Profits	20	20			20	(9)	(9)			(9)
Other Comprehensive Income	25	25			25	17	17			17
Minority Interest in Subsidiaries (for consolidated report only)										
(for consolidated report only)										
Total Equity Accounts	**516**	**516**	**-**		**516**	**489**	**489**	**-**		**489**
Other Accounts Eligible as Regulatory Capital										
Unsecured Subordinated Debt					-					-
General Loan Loss Reserves				2	2				11	11
Regulatory Adjustments/Deductions to CET1 Capital										
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)		-			-		-			-
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates		-			-		-			-
Deferred tax assets		-			-		-			-
Goodwill		-			-		-			-
Other Intangible Assets		(2)			(2)		(3)			(3)
Defined benefit pension fund assets (liabilities)		(6)			(6)		(0)			(0)
Other equity investments in non-financial allied undertakings and non-allied undertakings		(26)			(26)		(23)			(23)
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases)		-			-		-			-
Total Regulatory Capital	**516**	**482**	**-**	**2**	**484**	**489**	**462**	**-**	**11**	**474**

Components of Regulatory Capital

Regulatory Capital consist of the sum of the following accounts as reported in the BSP Financial Reporting Package (FRP) which are eligible as Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital guided by Circular No. 781 - Basel III Implementing Guidelines on Minimum Capital Requirements

a. Paid in Capital Stock

b. Additional Paid-in Capital Stock

c. Retained Earnings

d. Undivided Profits

e. Other Comprehensive Income

    Net Unrealized Gains or Losses on AFS Securities

    Cumulative foreign currency translation

    Remeasurement of Net Defined Benefit Liability/(Asset) pertains to Reserves on remeasurements of post-employment defined benefit plan comprise of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions and actual return on plan assets

f. Minority interest in subsidiary banks which are less than wholly-owned.

Tier 2 Capital consists of sum of Unsecured Subordinated Debt and General Loan Loss Reserves, limited to a maximum of 1.00% of credit risk-weighted assets.

Regulatory Adjustments to Capital consists of the sum of the following accounts :

a. Unsecured credit accomodations

b. Unsecured loans, other credit credit accomodations and guarantees granted to subsidiaries and affiliates

c. Deferred Tax Assets pertains to the tax impact of deductible temporary differences such as but not limited to provisions for impairment,minimum corporate income tax and retirement benefits

d. Goodwill.

e. Other Intangible Assets consist of computer software.

f. Defined benefit pension fund assets pertains to the excess of the fair value of the plan assets over the present value of the defined benefit obligation

g. Investments in equity of unconsolidated subsidiary banks for the solo reporting represents carrying amount as reported in the FRP, net of related goodwill

h. Other equity investments in non-financial allied undertakings and non-allied undertakings represents investments in various companies .

Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet in the Audited Financial Statements

(In Millions)

				December 31, 2022	
Equity Accounts	Audited FS	BSP FRP	Change	Details	Amount
Capital Stock	1,126	1,126	-		
Surplus Reserves	15	6	8	To adjust RE loan reserves	8
Revaluation Reserves	13	25	(12)	To recognize decrease in the fair value of AFS equity investments.	(12)
				To recognize increase in the actuarial valuation of retirement benefit plan.	0.3
				To recognize income tax adjustments	0.0
				Total Variance	(12)
Surplus Free	(651)	(642)	(8)	To adjust RE loan reserves	(8)
				Total	(8)
Total Capital	**504**	**516**	**(12)**		

Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet in the Audited Financial Statements

(In Millions)

				December 31, 2021	
Equity Accounts	Audited FS	BSP FRP	Change	Details	Amount
Capital Stock	1,126	1,126	-		
Surplus Reserves	6	6	-		
Revaluation Reserves	20	17	3	To recognize increase in the fair value of AFS equity investments.	3
Surplus Free	(662)	(661)	(1)	To recognize additional credit losses	(1)
				To recognized income tax adjustments	0.1
				Total	(1)
Total Capital	**491**	**489**	**2**		

Capital Requirements by type of exposure as of December 31, 2022 and 2021 are as follows:

	December 31, 2022		
	Credit Risk	**Market Risk**	**Operational Risk**
	Solo	**Solo**	**Solo**
	(in Millions)		
On- Balance Sheet Assets	1,275		
Off- Balance Sheet Assets	-		
Counterparty Risk-Weighted Assets in the Banking & Trading Book	-		
Credit Linked Notes in the Banking Book			
Securitization Exposures			
Market Risk-Weighted Assets		-	
Operational Risk using Basic Indicator Approach			385
Total	**1,275**	**-**	**385**
Capital Requirements	**127**	**-**	**38.49**

	December 31, 2021		
	Credit Risk	**Market Risk**	**Operational Risk**
	Solo	**Solo**	**Solo**
	(in Millions)		
On- Balance Sheet Assets	1,139		
Off- Balance Sheet Assets	-		
Counterparty Risk-Weighted Assets in the Banking & Trading Book	-		
Credit Linked Notes in the Banking Book			
Securitization Exposures			
Market Risk-Weighted Assets		-	
Operational Risk using Basic Indicator Approach			399
Total	**1,139**	**-**	**399**
Capital Requirements	**114**	**-**	**40**

Risk weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (NG) and those guarantors and exposures with the highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the rating by Standard & Poor's, Moody's, Fitch and Philratings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporation and Corporates.

Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets

(In Millions)

	December 31, 2022									
Type of Exposures	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights 0%	20%	50%	75%	100%	150%	Total Risk Weighted Assets
On-Balance Sheet Exposures										
Sovereigns	138	-	138	138	-	-		-		-
Banks	124		124		-	-		124		124
Government corporations	-	-	-		-	-		-		-
Corporates	555	-	555	-	-	536	-	20	-	287
Housing Loans	2	-	2		-	2		-		1
MSME Qualified portfolio	-		-				-			-
Defaulted exposures	38		38					-	38	58
Housing Loans	-		-					-		-
Others	38		38						38	58
ROPA	46		46						46	69
All other assets, net of deductions	749		749	13	-			736		736
Total on-balance sheet exposures	1,652	-	1,652	150	-	538	-	880	84	1,275
Off-balance sheet exposures										
Direct credit substitutes	-		-					-		-
Transaction-related contingencies	-		-					-		-
Trade-related contingencies	-		-					-		-
Others	0.00		0.00	0.00						
Total off-balance sheet exposures	0.00		0.00	0.00	-	-	-	-		-
Counterparty Risk-Weighted Assets in the Banking Book										
Counterparty Risk-Weighted Assets in the Trading Book										
Derivatives - interest rate contracts	-		-		-	-		-		-
Derivatives - exchange rate contracts	-		-		-	-		-		-
Credit Derivatives	-		-		-	-	-	-	-	-
Total counterparty RWA in trading book	-		-		-	-		-		-
Risk-Weighted Amount of Credit Linked Notes in the Banking Book										
Risk-Weighted Securitization Exposures										
Total	**1,652**	**-**	**1,652**	**150**	**-**	**538**	**-**	**880**	**84**	**1,275**
Deductions from Capital										
General loan loss provision (in excess of the amount permitted to be included in Tier 2)										0
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination										
Total, net of deductions	**1,652**	**-**	**1,652**	**150**	**-**	**538**	**-**	**880**	**84**	**1,275**

*** Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision**

Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets

(In Millions)

	December 31, 2021									
Type of Exposures	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
On-Balance Sheet Exposures										
Sovereigns	122	-	122	122	-	-		-		-
Banks	104		104		-	-		104		104
Government corporations	-	-	-		-	-		-		-
Corporates	427	-	427	-	-	414	-	13	-	220
Housing Loans	2	-	2		-	2		-		1
MSME Qualified portfolio	-		-				-			-
Defaulted exposures	52		52					-	52	78
Housing Loans	-		-					-		-
Others	52		52						52	78
ROPA	40		40						40	59
All other assets, net of deductions	688		688	12	-			676		676
Total on-balance sheet exposures	1,435	-	1,435	134	-	416	-	793	92	1,139
Off-balance sheet exposures										
Direct credit substitutes	-		-					-		-
Transaction-related contingencies	-		-					-		-
Trade-related contingencies	-		-					-		-
Others	0.00		0.00	0.00						
Total off-balance sheet exposures	0.00		0.00	0.00	-	-	-	-		-
Counterparty Risk-Weighted Assets in the Banking Book										
Counterparty Risk-Weighted Assets in the Trading Book										
Derivatives - interest rate contracts	-		-		-	-		-		-
Derivatives - exchange rate contracts	-		-		-	-		-		-
Credit Derivatives	-		-		-	-	-	-	-	-
Total counterparty RWA in trading book	-		-		-	-		-		-
Risk-Weighted Amount of Credit Linked Notes in the Banking Book										
Risk-Weighted Securitization Exposures										
Total	**1,435**	**-**	**1,435**	**134**	**-**	**416**	**-**	**793**	**92**	**1,139**
Deductions from Capital										
General loan loss provision (in excess of the amount permitted to be included in Tier 2)										8
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination										
Total, net of deductions	**1,435**	**-**	**1,435**	**134**	**-**	**416**	**-**	**793**	**92**	**1,131**

*** Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision**

Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets

(In Millions)

	December 31, 2022									
On-Balance Sheet Assets	Pincipal Amount	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
Cash on Hand	13		13	13						-
Checks and Other Cash Items	-		-		-					-
Due from Bangko Sentral ng Pilipinas (BSP)	114		114	114						-
Due from Other Banks	124		124		-	-		124		124
Financial Assets Designated at Fair Value through Profit or Loss	-		-							
Available-for-Sale (AFS) Financial Assets	-		-							
Held-to-Maturity (HTM) Financial Assets	-	-	-	-	-	-		-	-	-
Unquoted Debt Securities Classified as Loans	-	-	-					-		-
Loans and Receivables	1,175	1,175	1,175			538	-	599	38	925
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions	24	-	24	24	-	-	-	-	-	-
Sales Contract Receivable (SCR)	20		20					20	-	20
Real and Other Properties Acquired	46		46						46	69
Other Assets	137		137					137		137
Total Risk-weighted On-Balance Sheet Assets	**1,652**	**1,175**	**1,652**	**150**	**-**	**538**	**-**	**880**	**84**	**1,275**

Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets

(In Millions)

	December 31, 2021									
On-Balance Sheet Assets	Pincipal Amount	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
Cash on Hand	12		12	12						-
Checks and Other Cash Items	-		-		-					-
Due from Bangko Sentral ng Pilipinas (BSP)	122		122	122						-
Due from Other Banks	104		104		-	-		104		104
Financial Assets Designated at Fair Value through Profit or Loss										
Available-for-Sale (AFS) Financial Assets										
Held-to-Maturity (HTM) Financial Assets	-	-	-	-	-	-		-	-	-
Unquoted Debt Securities Classified as Loans	-	-	-					-		-
Loans and Receivables	971	971	971			416	-	503	52	789
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions	-	-	-	-	-	-	-	-	-	-
Sales Contract Receivable (SCR)	13		13					13	-	13
Real and Other Properties Acquired	40		40						40	59
Other Assets	173		173					173		173
Total Risk-weighted On-Balance Sheet Assets	**1,435**	**971**	**1,435**	**134**	**-**	**416**	**-**	**793**	**92**	**1,139**

Market Risk Weighted Assets

(In Millions)

	2022		2021	
Using Standardized Approach	Notional Amount	Market Risk Weighted Assets (MRWA)	Notional Amount	Market Risk Weighted Assets (MRWA)
Interest Rate Exposures	-	-	-	-
Equity Exposures	-	-	-	-
Foreign Exposures	-	-	-	-
Options	-	-	-	-
Total	-	-	-	-

Operational Risk-Weighted Assets under Basic Indicator Approach

(Based on 3 year Average Gross Income)

Nature of Item	2022	2021
Net interest income	161	167
Other non-interest income	44	46
Gross Income	205	213
Capital Requirements	**385**	**399**

FINANCIAL STATEMENT

RIZAL
MicroBank
A Thrift Bank of RCBC

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Grant Thornton

FOR SEC FILING

Financial Statements and Independent Auditors' Report

Rizal Microbank, Inc. – A Thrift Bank of RCBC

December 31, 2022 and 2021

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Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

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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, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

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.

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- 3 -

- 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 20 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 year ended December 31, 2022 and 2021 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 24 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 (SEC). 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. 9566629, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2022)
Firm - No. 0002 (until Dec. 31, 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, 2023

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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, 2022, on which we have rendered the attached report dated February 23, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has one stockholder owning 100 or more shares of the Bank's capital stock as of December 31, 2022, as disclosed in Note 16 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 9566629, January 3, 2023, Makati City
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2023

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
RESOURCES			
CASH	8	**P 12,754,048**	P 12,496,095
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	**113,687,087**	121,830,106
DUE FROM OTHER BANKS	8	**124,000,360**	104,231,109
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	8	**23,946,353**	-
LOANS AND RECEIVABLES - Net	9	**1,195,774,563**	966,534,494
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**115,123,858**	141,710,244
INVESTMENT PROPERTIES - Net	11	**57,934,857**	51,807,916
OTHER RESOURCES - Net	12	**34,602,818**	45,892,157
TOTAL RESOURCES		**P 1,677,823,944**	P 1,444,502,121
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	13	**P 1,049,954,750**	P 829,336,293
ACCRUED INTEREST AND OTHER EXPENSES	14	**15,405,975**	14,662,225
OTHER LIABILITIES	15	**108,725,343**	109,190,667
TOTAL LIABILITIES		**1,174,086,068**	953,189,185
EQUITY			
Capital stock	16	**1,126,358,000**	1,126,358,000
General loan loss reserves	16	**9,269,034**	910,854
Surplus reserves	2	**5,461,189**	5,461,189
Revaluation reserves	12, 19	**13,207,446**	20,373,894
Deficit	2	**(650,557,793)**	(661,791,001)
TOTAL EQUITY		**503,737,876**	491,312,936
TOTAL LIABILITIES AND EQUITY		**P 1,677,823,944**	P 1,444,502,121

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, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
INTEREST INCOME			
Loans and receivables	9	**P 176,465,018**	P 165,127,957
Due from Bangko Sentral ng Pilipinas and other banks	8	**1,898,476**	2,153,297
		178,363,494	167,281,254
INTEREST EXPENSE			
Deposit liabilities	13	**16,048,662**	13,832,164
Others	15, 19	**4,756,605**	3,735,270
		20,805,267	17,567,434
NET INTEREST INCOME		**157,558,227**	149,713,820
IMPAIRMENT LOSSES (RECOVERY)	9	**(15,756,114)**	6,284,892
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES (RECOVERY)		**173,314,341**	143,428,928
OTHER OPERATING INCOME	17	**55,593,904**	49,786,007
OTHER OPERATING EXPENSES	18	**(206,491,555)**	(201,931,429)
INCOME (LOSS) BEFORE TAX		**22,416,690**	(8,716,494)
TAX EXPENSE	20	**2,825,302**	1,186,215
NET INCOME (LOSS)		**19,591,388**	(9,902,709)
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	12	**(12,434,155)**	3,309,779
Remeasurements of retirement benefit plan	19	**5,267,707**	7,696,373
		(7,166,448)	11,006,152
TOTAL COMPREHENSIVE INCOME		**P 12,424,940**	P 1,103,443

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, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Deficit	General Loan Loss Reserves	Surplus Reserves	Revaluation Reserves: Remeasurements of Retirement Benefit Plan	Revaluation Reserves: Unrealized Fair Value Gains	Revaluation Reserves: Total	Total Equity
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	16	-	(8,358,180)	8,358,180	-	-	-	-	-
Net income for the year		-	19,591,388	-	-	-	-	-	19,591,388
Other comprehensive income (loss) for the year	12, 19	-	-	-	-	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**
Balance at January 1, 2021		P 1,126,358,000	(P 651,888,292)	P 910,854	P 5,461,189	(P 7,351,939)	P 16,719,681	P 9,367,742	P 490,209,493
Net loss for the year		-	(9,902,709)	-	-	-	-	-	(9,902,709)
Other comprehensive income for the year	12, 19	-	-	-	-	7,696,373	3,309,779	11,006,152	11,006,152
Balance at December 31, 2021		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

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, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		P 22,416,690	(P 8,716,494)
Adjustments for:			
Interest received		180,637,908	187,441,408
Interest income	8, 9	(178,363,494)	(167,281,254)
Depreciation and amortization	18	30,224,503	31,318,925
Interest expense	13, 15, 19	20,805,267	17,567,434
Interest paid		(18,975,690)	(25,285,130)
Impairment (reversal of impairment) losses	9	(15,756,114)	6,284,892
Gain on sale of bank premises, furniture, fixtures and equipment	10	(15,704,513)	(2,803,748)
Gain on sale of investment property	11	(4,454,279)	(9,676,166)
Loss on loan modification	18	1,290,452	1,658,099
Dividend income	12	-	(1,893,000)
Operating profit before working capital changes		22,120,730	28,614,966
Decrease (increase) in loans and receivables		(217,048,821)	42,461,519
Increase in investment properties		(2,900,309)	(4,887,684)
Decrease (increase) in other resources		(4,492,972)	12,670,642
Increase (decrease) in deposit liabilities		220,618,457	(84,848,874)
Increase (decrease) in accrued interest and other expenses		3,345,913	(6,179,587)
Decrease in other liabilities		(2,945,252)	(15,935,501)
Cash generated from (used in) operations		18,697,746	(28,104,519)
Cash paid for taxes		(603,397)	(298,373)
Net Cash From (Used in) Operating Activities		18,094,349	(28,402,892)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	60,449,013	11,143,742
Acquisitions of bank premises, furniture, fixtures and equipment	10	(26,291,907)	(8,257,081)
Acquisitions of computer software	12	(678,395)	-
Cash dividends received	12	-	1,893,000
Net Cash From Investing Activities		33,478,711	4,779,661
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	15	(15,742,522)	(14,165,990)
Payments of bills payable	15	-	(15,000,000)
Net Cash Used in Financing Activities		(15,742,522)	(29,165,990)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		35,830,538	(52,789,221)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8		
Cash		12,496,095	9,262,272
Due from Bangko Sentral ng Pilipinas		121,830,106	127,395,502
Due from other banks		104,231,109	120,197,555
Loans arising from reverse repurchase agreement		-	34,491,202
		238,557,310	291,346,531
CASH AND CASH EQUIVALENTS AT END 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	-
		P 274,387,848	P 238,557,310

Supplemental Information on Non-cash Investing and Financing Activities:

(1) The Bank recognized additional right-of-use assets and liabilities amounting to P18.73 million and P18.66 million in 2022, repectively and P20.55 million and P20.37 million in 2021, respectively (see Notes 10 and 15).

(2) In 2021, the Bank pre-terminated certain lease contracts with carrying value of right-of-use assets amounting to P1.09 million. The derecognition resulted in a gain amounting to P0.07 million. No similar transaction occurred in 2022 (see Note 17).

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, 2022 AND 2021
(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.

In 2022, Rizal Commercial Banking Corporation (RCBC or the Parent Bank), an entity incorporated and domiciled in the Philippines, acquired the remaining 1.97% of the shares of the Bank and the Bank became a wholly owned subsidiary of RCBC. 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 39.64% 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 to 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, 2022, the Bank has 17 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, 2022, the Bank has one branch-lite unit in Oriental Mindoro.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the Bank's BOD on February 23, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The 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 Reporting Standards Council (FRSC) 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 2022 that are Relevant to the Bank

The Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities
PFRS 16 (Amendments)	:	Leases – Lease Incentives

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

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments resulted in a revision in the Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022, would be identified as onerous after applying the amendments.

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Bank's financial statements:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives.* The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) Effective in 2022 that is not Relevant to the Bank

Among the amendments and improvements to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Bank's financial statements:

(i) PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework* (effective from January 1, 2022)

(ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Bank:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

- PAS 41, *Agriculture – Taxation in Fair Value Measurements* *(c) Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, of these are expected to have 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, 2023)

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Current versus Non-current classification

The Bank presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Bank classifies all other liabilities as noncurrent.

2.4 Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual terms of the financial instrument.

(a) Financial Assets

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(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

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect or HTC"); and,

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

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 a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(a)].

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. 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 Agreements, Loans and Receivables, and Accrued rent receivable and Rental and other deposits (presented under Other Resources account).

For purposes of cash flows reporting and presentation, cash equivalents comprise of accounts with original maturities of three months or less, including non-restricted balances of Due from BSP, Due from Other Banks, and Loans Arising from Reverse Repurchase Agreements. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial Assets at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding.

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 FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported in Unrealized Fair Value Gains under the Revaluation Reserves account in equity. When the asset is disposed of, the cumulative fair value gains or losses previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus or Deficit account, except for those debt securities classified as FVOCI wherein fair value changes are recycled to profit or loss.

Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, or those that do not qualify under the FVOCI or "hold to collect and sell" business model are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank currently does not have financial assets at FVPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or,

- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Any gains and losses arising from changes in the fair value of the financial assets at FVPL category are recognized in profit or loss in the period in which they arise.

(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. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

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 (POCI) 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 recognizes a loss allowance for expected credit losses (ECL) on all financial assets that are measured at amortized cost and debt instruments classified as at FVOCI. Equity securities, either measured as at FVPL or designated as at FVOCI, are not subject to impairment.

The Bank measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

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 collective basis. For modelling ECL parameters 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, collateral type, product type, and historical net charge-offs of the borrowers.

The Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provision matrix that considers historical changes in the behavior 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 any 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) *Reclassification of Financial Assets*

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 FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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.

(v) *Derecognition of Financial Assets*

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

(vi) *Modification of Loans*

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 SICR 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 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.

The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(vii) Derecognition of Financial Assets Other than Through Modification

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(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), are recognized initially at their fair values (except for lease liabilities which recognition policy is discussed in Note 2.11) and subsequently measured at amortized costs using the effective interest method for maturities beyond one year, less settlement payments. All interest related charges on financial liabilities are recognized as an expense in profit or loss are presented under the Interest Expense account in the statement of comprehensive income.

Deposit liabilities, accrued interest and other expenses, and other liabilities (except for withholding taxes payable and income tax payable) are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Bills payable, which is included as part of Other Liabilities account, is recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event.

It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.5 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.

The cost of an asset consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

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.

The asset's carrying amount is written down immediately to its recoverable amount if its amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values, estimated useful lives, and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

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

2.6 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 2.14). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

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.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are charged against current operations in the period in which these costs are incurred.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized under Other Operating Income account in the year of retirement or disposal.

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 statement 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 2.14.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.8 Other Resources

Other resources pertain to those assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.9 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain.

A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Other Income and Expense Recognition

Other income is recognized when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts from Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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 other income arising from various banking services such as service charges, fees and commissions which are to be accounted for under PFRS 15 are recognized when the service has been provided or after fulfilling the corresponding criteria. These include the commissions, deposit-related fees and other credit-related fees.

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 Miscellaneous Income or Miscellaneous Expenses in the statement 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 Miscellaneous Income.

Costs and expenses are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any.

2.11 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

The Bank considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

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

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.14).

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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 Accrued Expenses 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.

2.12 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.13 Employee Benefits

The Bank provides retirement benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired.

Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. 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 liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense or Interest Income account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a retirement plan under which the Bank pays fixed contributions into an independent entity such as the social security system. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Interest and Other Expenses in the statement of financial position.

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, intangible assets (recognized under Other Resources account), investment properties, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, assets are tested for impairment either individually or at the CGU level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount which is the higher of its fair value less cost to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while in determining value in use management estimates the expected future cash flows to be generated from the continued use of the asset or CGU, and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds their carrying amount.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax asset and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.16 Related Party Transactions and Relationships

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

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

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

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

General loan loss reserves pertain to the accumulated amount of appropriation made by the Bank arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL on 'Stage 1' loan accounts.

Surplus reserves pertain to surplus restricted for a particular purpose.

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.

Deficit represents all current and prior period results of operations as disclosed in the profit or loss section of the statement of comprehensive income.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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) 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.

(b) 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.

(c) Classification of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, 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.

(d) 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 the renewal period as part of the lease term for leases of its branches and office, due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

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.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 22.

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 follows the adoption of the parent banks' revised Expected Credit Loss (ECL) Methodology in estimating allowances. This was approved by the Board of Directors last October 27, 2022.

The revised ECL 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 revised 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 the new 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, 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*

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 12.1.

(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 12.2, respectively. Based on management's assessment as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 20).

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

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.14.

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.

(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 retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 19.2.

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 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 24(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 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.

With the adoption of the revised ECL model, the Bank classifies the loans with the integration of color coding assessment. The Bank classifies the loans based on days past due following the categories that are consistent with the manner applied under the Bank's internal credit risk assessment and regulatory reporting as follows:

Color Code	Status	Stage	Classification
GREEN	Current	1	Unclassified
	Past due performing	2	EM
YELLOW	Current	1	Unclassified
	Past due performing	2	EM
	Past due non performing	3	Substandard
AMBER	Current	1	Unclassified
	Past due performing	2	EM
	Past due non performing	3	Doubtful
ORANGE	Current	2	EM
	Past due performing	3	Substandard
	Past due non performing	3	Doubtful
RED	Past due non performing	3	Doubtful
			Loss

Notes:

For repackaged 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*
   - *2.1 Those accounts repackaged/restructured only once shall have its ceiling of Stage 2 – Especially mentioned*
   - *2.2 Those accounts repackaged/ 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 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.

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 Credit Risk Management Unit (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. The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.1.1. As of December 31, 2022, 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 to 2022, the BAU ECL methodology have been constructed and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed to reflect the considerable uncertainty in BAU ECL methodology given the unprecedented impacts of COVID-19.

In 2022, the Bank revised its BAU ECL methodology to incorporate impacts of COVID-19 under its new normal assessments eliminating the need 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 Bank'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).

The Bank has considered SICR in measuring ECL under the COVID-19 situation. The offer or uptake of COVID-19 related repayment deferrals, whether coming from government reliefs or from the Bank's RACE Program, does not itself constitute an SICR event unless the exposure is considered to have experienced an SICR based on other available information. SICR has been reassessed with reference to the Bank's RACE Program credit risk rating which considers industry or segment assessment under the COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Bank's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

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	2022	2021
Cash	8	**P 12,754,048**	P 12,496,095
Due from BSP	8	**113,687,087**	121,830,106
Due from other banks	8	**124,000,360**	104,231,109
Loans arising from reverse repurchase agreements	8	**23,946,353**	-
Loans and receivables:	9		
Receivable from customers		**1,234,418,375**	1,073,234,058
Sales contract receivables		**19,653,218**	13,047,753
Accrued interest receivables		**6,958,844**	9,233,258
Others		**3,338,079**	3,180,387
Rental and other deposits	12	**3,497,561**	2,866,764
Accrued rent receivable	12	**-**	294,182
		P 1,542,253,925	P 1,340,413,712

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 central bank and financial institutions counterparties that are reputable and with low credit risk. This includes the deposits to the Parent Bank (see Note 21.2).

The information about the credit exposures on the Bank's receivables from customers portfolio by stages of impairment as of December 31, 2022 and 2021 is shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

	Stage 1	Stage 2	Stage 3	Total
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**
2021				
Credit Quality				
Unclassified	P 814,849,075	P -	P -	P 814,849,075
Especially mentioned	-	139,679,008	-	139,679,008
Defaulted	-	-	118,705,975	118,705,975
Gross carrying amount	814,849,075	139,679,008	118,705,975	1,073,234,058
Allowance for ECL	(18,589,517)	(10,972,129)	(101,895,630)	(131,457,276)
Carrying amount	P 796,259,558	P 128,706,879	P 16,810,345	P 941,776,782

(b) Allowance for ECL

The table below shows the reconciliation of the loss allowance for ECL for receivable from customers as of December 31, 2022 and 2021.

	Stage 1	Stage 2	Stage 3	Total
2022				
Balance at beginning year	P 18,589,517	P 10,972,129	P 101,895,630	P 131,457,276
Transfers:				
Stage 1 to Stage 2	1,386,697	(1,386,697)	-	-
Stage 2 to Stage 3	(990,450)	-	990,450	-
Stage 3 to Stage 2	-	(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**
2021				
Balance at beginning year	P 19,174,355	P 3,300,965	P 111,315,939	P 133,791,259
Transfers:				
Stage 1 to Stage 2	(1,180,126)	1,180,126	-	-
Stage 2 to Stage 3	-	(1,299,157)	1,299,157	-
Stage 3 to Stage 2	-	7,188,273	(7,188,273)	-
Assets derecognized or repaid	(14,612,447)	(1,706,613)	(4,471,899)	(20,790,959)
New assets originated:				
Remained in Stage 1	15,207,735	-	-	15,207,735
Moved to Stage 2 and 3	-	2,308,535	940,706	3,249,241
Balance at end of year	P 18,589,517	P 10,972,129	P 101,895,630	P 131,457,276

ECL on cash and cash equivalents and other financial instruments (except for receivable from customers) were assessed by management to be not significant. These financial instruments were in Stage 1 category and are considered current as of December 31, 2022 and 2021.

(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
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**
2021				
Balance at beginning year	P 973,821,392	P 13,416,419	P 141,462,242	P 1,128,700,053
Transfers:				
Stage 1 to Stage 2	(100,689,724)	100,689,724	-	-
Stage 2 to Stage 3	-	(3,725,123)	3,725,123	-
Stage 3 to Stage 2	-	23,546,083	(23,546,083)	-
Assets derecognized or repaid	(649,991,696)	(18,210,340)	(4,505,994)	(672,708,030)
New assets originated:				
Remained in stage 1	591,709,103	-	-	591,709,103
Moved to Stage 2 and 3	-	23,962,245	1,570,687	25,532,932
Balance at end of year	P 814,849,075	P 139,679,008	P 118,705,975	P 1,073,234,058

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, 2022 and 2021 were classified per stage as follows:

	Stage 1	Stage 2	Stage 3	Total
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**
2021				
Real properties	P 2,331,879,676	P 54,131,531	P 219,605,800	P 2,605,617,007
Chattel	419,969,249	17,471,385	75,416,770	512,857,404
Hold-out deposits	56,890,924	539,500	2,076,999	59,507,423
	P 2,808,739,849	P 72,142,416	P 297,099,569	P 3,177,981,834

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P14.84 million and P22.43 million in 2022 and 2021, 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 2022 and 2021.

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 Board of Directors 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, 2022 and 2021, the total outstanding balance of loans modified under the RACE Program amounts to P202.47 million and P309.52 million, respectively.

(b) Financial Reliefs Mandated by the Government

In compliance with R.A. No. 11469, *Bayanihan I*, the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with R.A. No. 11494, *Bayanihan II*, the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties, or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods except for microfinance loans.

As of December 31, 2022 and 2021, the total outstanding balance of loans modified under Bayanihan I and II Acts amounted to nil and P124.38 million, respectively.

(c) 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 4.1.5(a)].

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 and in the succeeding page.

	2022					
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-Maturity**	**Total**
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	179,448,845	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 -**

	2021					
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
Resources:						
Cash	P 12,496,095	P -	P -	P -	P -	P 12,496,095
Due from BSP	121,830,106	-	-	-	-	121,830,106
Due from other banks	104,231,109	-	-	-	-	104,231,109
Loans and receivables:						
Receivable from customers	43,524,430	175,870,566	426,438,756	316,276,967	-	962,110,719
Accrued interest receivables	9,233,258	-	-	-	-	9,233,258
Sales contract receivables	468,798	1,422,070	3,909,788	7,247,097	-	13,047,753
Other Resources:						
Rental and other deposit	-	-	-	-	2,866,764	3,100,387
	291,783,796	177,292,636	430,348,544	323,524,064	2,866,764	1,225,815,804
Liabilities:						
Deposit liabilities	167,993,647	233,783,184	136,182,991	8,241,887	283,134,584	829,336,293
Accrued interest and other expenses	-	-	-	-	11,683,217	11,683,217
Other liabilities	48,229,851	2,800,409	7,831,918	47,938,300	1,500,340	108,300,818
	216,233,498	236,583,593	144,014,909	56,180,187	296,318,141	949,390,328
Net periodic surplus (gap)	75,560,298	(59,290,957)	286,333,635	267,343,877	(293,451,377)	276,495,476
Cumulative total surplus	P 75,560,298	P 16,269,341	P 302,602,976	P 569,946,853	P 276,495,476	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

(a) 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, 2022 and 2021:

	2022					
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-Maturity**	**Total**
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	291,281,26	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 -**

	2021					
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
Resources:						
Due from BSP	P 96,000,000	P -	P -	P -	P -	P 96,000,000
Due from other banks	104,231,109	-	-	-	-	104,231,109
Receivable from customers	43,524,430	175,870,566	426,438,756	316,276,967	-	962,110,719
Sales contract receivables	468,798	1,422,070	3,909,788	7,247,097	-	13,047,753
	244,224,337	177,292,636	430,348,544	323,524,064	-	1,175,389,581
Liabilities:						
Deposit liabilities	167,993,647	233,783,184	136,182,991	8,241,033	283,135,124	829,335,979
Other liabilities	934,443	2,800,409	7,831,918	47,938,300	-	59,505,070
	168,928,090	236,583,593	144,014,909	56,179,333	283,135,124	888,841,049
Net periodic surplus (gap)	75,296,247	(59,290,957)	286,333,635	267,344,731	(283,135,124)	286,548,532
Cumulative total surplus	P 75,296,247	P 16,005,290	P 302,338,925	P 569,683,656	P 286,548,532	P -

4.4 Impact of LIBOR Reform

As disclosed in Note 2.2(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.

	2022	2021
Tier 1 Capital	**P 482,160,384**	P 462,342,002
Tier 2 Capital	**1,528,287**	11,386,543
Total regulatory qualifying capital	**P 483,688,671**	P 473,728,545
Total risk weighted assets	**P 1,659,638,826**	P 1,529,271,384
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**29.14%**	30.98%
Total Tier 1 expressed as percentage of total risk-weighted assets	**29.05%**	30.23%

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, 2022 and 2021.

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:

	2022	2021
Tier 1 Capital	**P 482,160,384**	P 462,342,002
Exposure Measure	**1,684,223,699**	1,442,414,161
	28.63%	32.05%

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 period 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.

	2022	
	Total Unweighted Value	**Total Weighted Value**
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%**

	2021	
	Total Unweighted Value	Total Weighted Value
Total stock of HQLA	P 134,326,201	P 134,326,201
Expected Net Cash Outflows	776,578,604	70,796,139
LCR		189.74%

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.

	2022	2021
Available stable funding	**P 1,442,725,298**	P 1,234,413,261
Required stable funding	**1,000,060,483**	913,166,101
Basel III NSFR	**1.44%**	1.35%

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	2022 Carrying Amounts	2022 Fair Values	2021 Carrying Amounts	2021 Fair Values
Financial Assets					
At amortized cost:					
Cash	8	**P 12,754,048**	**P 12,754,048**	P 12,496,095	P 12,496,095
Due from BSP	8	**113,687,087**	**113,687,087**	121,830,106	121,830,106
Due from other banks	8	**124,000,360**	**124,000,360**	104,231,109	104,231,109
Loans arising from reverse repurchase agreements	8	**23,946,353**	**23,946,353**	-	-
Loans and receivables – net	9	**1,195,774,563**	**1,075,726,077**	966,534,494	897,305,376
Other resources:					
Rental and other deposits	12	**3,497,561**	**3,497,561**	2,866,764	2,866,764
Accrued rent receivable	12	**-**	**-**	294,182	294,182
		1,473,659,972	**1,353,611,486**	1,208,252,750	1,139,023,632
At fair value –					
Financial assets at FVOCI	12	**13,672,806**	**13,672,806**	26,106,961	26,106,961
		P 1,487,332,778	**P1,367,284,292**	P 1,234,359,711	P 1,165,130,593
Financial Liabilities					
At amortized cost:					
Deposit liabilities	13	**P 1,049,954,750**	**P 1,054,194,511**	P 829,336,293	P 825,254,251
Accrued interest and other expenses	14	**12,301,861**	**12,301,861**	11,683,217	11,683,217
Other liabilities	15	**106,984,165**	**106,984,165**	108,370,818	108,370,818
		P 1,169,240,776	**P1,173,480,537**	P 949,390,328	P 945,308,286

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, 2022 and 2021 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, 2022 Related amounts not set-off in the statement of financial position			December 31, 2021 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	**P1,195,774,563**	**(P 110,541,294)**	**P1,085,233,269**	P 966,534,494	(P 88,139,211)	P 878,395,283
Financial liabilities – Deposit liabilities	**P1,049,954,750**	**(P 110,541,294)**	**P 939,413,456**	P 829,336,293	(P 88,139,211)	P 741,197,082

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 P13.67 million and P26.11 million as of December 31, 2022 and 2021, respectively (see Note 12.1).

As of December 31, 2022 and 2021, 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 9.23% and 4.83% in 2022 and 2021, respectively.

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

	Note	**2022**	2021
Balance at beginning of year		**P 26,106,961**	P 22,797,182
Fair value gains (losses)		**(12,434,155)**	3,309,779
Balance at end of year	12	**P 13,672,806**	P 26,106,961

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 Carried at Cost

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 as of December 31, 2022 and 2021 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, 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 and 2021, the total estimated fair values of the investment properties amounted to P111.20 million and P86.84 million, respectively (see Note 11).

8. CASH AND CASH EQUIVALENTS

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

		2022		2021
Cash	**P**	**12,754,048**	P	12,496,095
Due from BSP		**113,687,087**		121,830,106
Due from other banks		**124,000,360**		104,231,109
Loans arising from reverse repurchase agreements		**23,946,353**		-
	P	**274,387,848**	P	238,557,310

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 13). The outstanding balance as of December 31, 2022 and 2021 includes Overnight Deposit Facility with the BSP amounting P32.0 million and P10.0 million, respectively, bearing annual interest rates of 3.50% 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 0.10% to 0.25% in 2022, and from 0.05% to 0.50% in 2021.

Loans arising from reverse repurchase agreements bear interest of 5.50% in 2022.

Interest income earned from cash equivalents are as follows:

	2022	2021
Due from BSP	**P 1,356,709**	P 1,878,581
Due from other banks	**541,767**	274,716
	P 1,898,476	P 2,153,297

9. LOANS AND RECEIVABLES

This account is composed of the following:

	Note	**2022**	2021
Loans and discounts –			
Receivable from customers		**P 1,234,418,375**	P 1,073,234,058
Other receivables:			
Sales contract receivables	11	**19,653,218**	13,047,753
Accrued interest receivables		**6,958,844**	9,233,258
Others		**3,338,079**	3,180,387
		1,264,368,516	1,098,695,456
Allowance for impairment		**(68,593,953)**	(132,160,962)
		P 1,195,774,563	P 966,534,494

Loans and receivables earn an average effective interest at rates ranging from 5.00% to 53.16% per annum, and from 7.80% to 53.00% per annum in 2022 and 2021, respectively. Interest income earned from loans and receivables amounting to P176.47 million and P165.13 million in 2022 and 2021, 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 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	**2022**	2021
Balance at beginning of year		**P 132,160,962**	P 134,178,058
Write-offs		**(47,790,840)**	-
Reversal of impairment losses during the year		**(15,756,114)**	-
Transfer to other account	11	**(20,055)**	(8,301,988)
Impairment losses during the year		**-**	6,284,892
Balance at end of year		**P 68,593,953**	P 132,160,962

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 2022 and 2021 are shown below.

	Land	**Buildings**	**Furniture, Fixtures and Office Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Right-of-Use Assets**	**Construction in Progress**	**Total**
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**
December 31, 2021								
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
January 1, 2021								
Cost	P 37,155,379	P 47,017,242	P 48,147,491	P 68,024,327	P 17,807,012	P 60,080,742	P -	P 278,232,193
Accumulated depreciation and amortization	-	(31,218,482)	(35,641,252)	(31,727,456)	(13,153,310)	(16,924,109)	-	(128,664,609)
Net carrying amount	P 37,155,379	P 15,798,760	P 12,506,239	P 36,296,871	P 4,653,702	P 43,156,633	P -	P 149,567,584

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 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, 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**
Balance at January 1, 2021, net of accumulate depreciation and amortization	P 37,155,379	P 15,798,760	P 12,506,239	P 36,296,871	P 4,653,702	P 43,156,633	P -	P 149,567,584
Additions	-	-	1,546,975	4,588,237	2,121,869	20,547,131	-	28,804,212
Disposals	(3,713,434)	(2,230,633)	(133,100)	(362,006)	(811,361)	(1,089,460)	-	(8,339,994)
Depreciation and amortization charges for the year	-	(1,934,351)	(5,222,600)	(7,554,728)	(1,810,455)	(11,799,424)	-	(28,321,558)
Balance at December 31, 2021 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

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

The Bank disposed of certain bank premises, furniture, fixtures and equipment amounting to P44.74 million and P7.25 million in 2022 and 2021, respectively. Such disposals resulted in a gain amounting to P15.70 million and P2.80 million in 2022 and 2021, respectively, and are presented as part of Other Operating Income in the statements of comprehensive income (see Note 17).

In 2021, the Bank pre-terminated certain lease contracts with carrying values of right-of-use assets amounting to P1.09 million. No lease contracts were pre-terminated in 2022. The derecognition resulted in a gain amounting to P0.07 million in 2021, which was presented as part of Gain on disposal of property and equipment under Other Operating Income account in the statements of comprehensive income (see Note 17).

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, 2022 and 2021 amounting to P19.65 million and P13.05 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).

The cost of fully depreciated assets that are still being used in operation amounts to P46.55 million and P36.68 million as of December 31, 2022 and 2021, 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 10%. 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 15) 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, 2022 and 2021.

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.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2022 and 2021 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**
December 31, 2021			
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
January 1, 2021			
Cost	P 30,225,655	P 8,689,267	P 38,914,922
Accumulated depreciation	-	(868,927)	(868,927)
Net carrying amount	P 30,225,655	P 7,820,340	P 38,045,995

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 are shown below.

	Land	Buildings	Total
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**
Balance at January 1, 2021 – net of accumulated depreciation and impairment	P 30,225,655	P 7,820,340	P 38,045,995
Additions	15,542,166	8,720,028	24,262,194
Disposals	(5,357,277)	(4,341,067)	(9,698,344)
Depreciation for the year	-	(801,929)	(801,929)
Balance at December 31, 2021 - net of accumulated depreciation and impairment	P 40,410,543	P 11,397,372	P 51,807,916

As of December 31, 2022 and 2021, the carrying amount of investment properties amounted to P57.93 million and P51.81 million with allowance for impairment amounting to P1.99 million and P1.10 million, respectively. The gross carrying amount includes P14.84 million and P22.43 million cost of the parcel of land and building foreclosed by the Bank in 2022 and 2021, respectively, while the allowance for impairment pertains to the amount reclassified by the Bank in 2022 and 2021 from its previously recognized allowance for impairment on the related loans and receivable (see Note 9).

In 2022 and 2021, the Bank recognized a gain on disposal of investment properties of P4.45 million and P9.68 million, respectively, and rental income amounting to P0.56 and P1.08, respectively, which is presented in Other operating income in the statements of comprehensive income (see Note 17).

Expenses incurred by the Bank related to investment properties include taxes and licenses amounting to P4.86 million and P0.02 million in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the foreclosed investment properties still subject to redemption period by the borrowers amount to P7.30 million and P8.30 million, respectively.

The estimated fair values of the properties amounted to P111.20 million and P86.84 million as of December 31, 2022 and 2021, respectively (see Note 7.4).

12. OTHER RESOURCES

This account consists of:

	Notes	2022	2021
Financial asset at FVOCI	7.2, 12.1	**P 13,672,806**	P 26,106,961
Retirement benefit asset	19.2	**6,034,398**	473,640
Office supplies		**3,718,109**	2,877,114
Rental and other deposits		**3,497,561**	2,866,754
Prepaid expenses		**2,154,279**	2,465,456
Computer software – net	12.2	**1,870,443**	3,321,559
Accrued rent receivable	12.3	-	294,182
Miscellaneous	21.4	**3,655,222**	7,486,481
		P 34,602,818	P 45,892,157

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

12.1 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 decreased by P12.43 million in 2022 and increased by P3.31 million in 2021, which is recognized as an adjustment in other comprehensive income (loss) as an item that will not be reclassified to profit or loss.

The Bank recognized dividends on this investment amounting to P1.89 million in 2021, which is presented as Dividend income under Other Operating Income account in the statements of comprehensive income (see Note 17). No similar transaction in 2022.

12.2 Computer Software

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2022 and 2021 follow:

	December 31, 2022	December 31, 2021	January 1, 2021
Cost	**P 12,866,441**	P 12,188,016	P 12,226,345
Accumulated amortization	**(10,995,968)**	(8,866,457)	(6,709,348)
Net carrying amount	**P 1,870,443**	P 3,321,559	P 5,516,997

A reconciliation of the carrying amounts of computer software at the beginning and end of 2022 and 2021 is shown below.

	Note	2022	2021
Balance at January 1, net of accumulated amortization		**P 3,321,559**	P 5,516,997
Amortization charges for the year	18	**(2,129,511)**	(2,195,438)
Additions		**678,395**	-
Net carrying amount		**P 1,870,443**	P 3,321,559

12.3 Accrued rent receivables

In 2012, the Bank entered into a lease agreement with RCBC for the lease of a parcel of land situated in Cebu. Rent income recognized on this lease agreement amounting to P0.56 million in 2022 and P1.08 million in 2021 is presented as Rent income under Other Operating Income account in the statements of comprehensive income (see Note 17).

13. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	2022	2021
Current	**P 48,406,198**	P 29,985,533
Savings	**270,291,898**	253,149,051
Time	**731,256,654**	546,201,709
	P 1,049,954,750	P 829,336,293

Interest rates per annum on deposit liabilities ranging from 0.25% to 6.13% in 2022 and from 0.25% to 6.00% in 2021.

Under existing BSP regulations, non-foreign currency depositary unit deposit liabilities are subject to required reserve of 3.00% (BSP Circular 1092, Series of 2020). The Bank is in compliance with such regulations.

The available reserves consist of the demand deposit account to BSP amounting to P113.69 million and P121.83 million as of December 31, 2022 and 2021, respectively (see Note 8).

14. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

	2022	2021
Accrued interest	**P 4,202,392**	P 2,372,815
Accrued gross receipt tax	**3,104,114**	2,979,008
Accrued insurance - Philippine Deposit Insurance Corporation	**960,881**	863,337
Accrued other expenses	**7,138,588**	8,447,065
	P 15,405,975	P 14,662,225

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

15. OTHER LIABILITIES

The breakdown of this account is shown below.

	2022	2021
Lease liabilities	**P 66,976,428**	P 59,505,070
Accounts payable	**38,366,100**	47,365,408
Withholding taxes payable	**930,307**	819,849
Income tax payable	**810,871**	-
Miscellaneous	**1,641,637**	1,500,340
	P 108,725,343	P 109,190,667

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:

	2022	2021
Balance at January 1	**P 59,505,070**	P 50,981,912
Additions	**18,657,515**	20,367,131
Payments of lease liabilities	**(15,742,522)**	(14,165,990)
Interest	**4,556,365**	3,480,791
Written-off	**-**	(1,158,774)
Balance at December 31	**P 66,976,428**	P 59,505,070

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, 2022							
Lease payments	P 15,584,272	P14,557,413	P14,364,220	P 9,292,770	P 9,097,254	P16,681,017	P79,576,946
Finance Charges	(2,890,048)	(2,960,914)	(2,215,365)	(1,599,205)	(1,120,824)	(1,814,162)	(12,600,519)
Net present Value	**P 12,694,224**	**P11,595,499**	**P 12,148,885**	**P 7,693,565**	**P 7,976,430**	**P14,866,855**	**P66,976,428**
December 31, 2021							
Lease payments	P 15,000,679	P13,343,956	P12,223,393	P 11,935,214	P 6,829,488	P11,710,409	P71,043,139
Finance Charges	(3,433,909)	(2,733,531)	(2,101,816)	(1,442,892)	(922,393)	(903,528)	(11,538,069)
Net present Value	P 11,566,770	P10,610,425	P 10,121,577	P 10,492,322	P 5,907,095	P10,806,881	P59,505,070

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, 2022 and 2021, 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 P1.53 million in 2022 and P1.50 million in 2021 and is presented as part of Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 18).

16. EQUITY

16.1 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, 2022 and 2021, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2022 and 2021, the Bank has one and two stockholders owning 100 or more shares of the Bank's capital stock, respectively.

16.2 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 as of December 31, 2022 and 2021 amounted to P9.27 million and P0.91 million, respectively.

17. OTHER OPERATING INCOME

This account consists of the following:

	Notes	**2022**	2021
Service fees and commission		**P 30,933,671**	P 29,945,777
Gain on disposal of property and equipment	10	**15,704,513**	2,803,748
Gain on sale of investment property	11	**4,454,279**	9,676,166
Rent income	11	**561,576**	1,075,980
Dividend income	12.1	**-**	1,893,000
Other income		**3,939,865**	4,391,336
		P 55,593,904	P 49,786,007

Other income includes notarial fees, holding fees and establishment fees charged to customers.

18. OTHER OPERATING EXPENSES

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

	Notes	**2022**	2021
Salaries and employee benefits	19.1	**P 102,637,088**	P 92,254,122
Depreciation and amortization	10, 11, 12.2	**30,224,503**	31,318,925
Taxes and licenses		**19,959,768**	21,112,226
Messengerial, janitorial and security	21.3	**11,852,206**	11,152,246
Postage and utilities		**5,448,213**	7,166,841
Insurance		**5,095,995**	4,956,936
Power, light and water	21.3	**3,881,074**	2,925,412
Management and other professional fees		**3,567,004**	4,160,096
Transportation and travel		**3,244,486**	1,589,875
Information technology		**3,101,873**	3,090,026
Repairs and maintenance		**2,413,445**	2,087,334
Stationery and supplies		**2,440,909**	1,883,919
Balance brought forward		**P 193,866,564**	P 183,697,958

	Notes	2022	2021
Balance brought forward		**P 193,866,564**	P 183,697,958
Fuel and lubricant		**2,333,625**	1,292,536
Occupancy	15, 21.3	**1,532,831**	1,497,467
Loss on loan modification		**1,290,452**	1,658,099
Advertising and publicity		**605,795**	607,176
Supervision fees		**432,061**	520,764
Miscellaneous		**6,430,227**	12,657,429
		P 206,491,555	P 201,931,429

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2022	2021
Short-term employee benefits		**P 97,834,895**	P 86,560,002
Post-employment defined benefit	19.2	**4,802,193**	5,694,120
	18	**P 102,637,088**	P 92,254,122

19.2 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 21.5). 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 page are based on the actuarial valuation reports obtained from independent actuary in 2022 and 2021.

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 12):

	2022	2021
Present value of the obligation	**P 28,701,952**	P 31,683,194
Fair value of plan assets	**(35,399,213)**	(32,180,516)
Effect of the asset ceiling	**662,863**	23,682
	(P 6,034,398)	(P 473,640)

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

	2022	2021
Balance at beginning of year	**P 31,683,194**	P 34,157,531
Current service cost	**4,802,193**	5,694,120
Interest expense	**1,584,160**	1,338,975
Remeasurement – actuarial losses (gains) arising from changes in:		
- financial assumptions	**(8,314,442)**	(5,917,019)
- experience adjustments	**1,084,344**	(3,105,076)
- demographic assumptions	**-**	8,696
Benefits paid	**(2,137,497)**	(494,033)
Balance at end of year	**P 28,701,952**	P 31,683,194

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

	2022	2021
Balance at beginning of year	**P 32,180,516**	P 32,695,897
Interest income	**1,680,588**	1,271,996
Contributions	**5,000,000**	-
Negative return on plan assets (excluding amounts included in net interest)	**(1,324,394)**	(1,293,344)
Benefits paid	**(2,137,497)**	(494,033)
Balance at end of year	**P 35,399,213**	P 32,180,516

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.

	2022	2021
Due from other banks	**P 30,177,000**	P 15,943,963
Philippine government bonds	**5,084,824**	15,285,182
Others – net	**137,389**	951,371
	P 35,399,213	P 32,180,516

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 P0.36 million in 2022 and net loss of P0.02 million in 2021.

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:

	2022	2021
Recognized in profit or loss:		
Current service cost	**P 4,802,193**	P 5,694,120
Net interest expense	**(95,244)**	66,979
	P 4,706,949	P 5,761,099
Recognized in other comprehensive loss:		
Actuarial losses (gains) arising from changes in:		
- financial assumptions	**(P 8,314,442)**	(P 5,917,019)
- experience adjustments	**1,084,344**	(3,105,076)
- demographic assumptions	**-**	8,696
Negative return on plan assets (excluding amounts included in net interest)	**1,324,394**	1,293,344
Effect on asset ceiling	**637,997**	23,682
	(P 5,267,707)	(P 7,696,373)

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 18 and 19.1).

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:

	2022	2021
Discount rates	**7.70%**	5.00%
Expected rate of salary increases	**5.00%**	4.00%

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, 2022 and 2021:

	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2022			
Discount rate	**+/- 1%**	**(P 4,564,579)**	**P 3,735,785**
Salary growth rate	**+/- 1%**	**4,645,692**	**(3,855,703)**
December 31, 2021			
Discount rate	+/- 1%	(P 5,428,940)	P 4,380,209
Salary growth rate	+/- 1%	5,428,940	(4,456,581)

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 P6.03 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:

	2022	2021
More than one year to five years	**P 12,334,506**	P 4,337,380
More than five years to ten years	**12,960,174**	19,808,753
	P 25,294,680	P 24,146,133

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

20. INCOME TAXES

20.1 Current and Deferred Taxes

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

	2022	2021
Reported in profit or loss:		
Current tax expense:		
MCIT at 1%	**P 1,642,575**	P 1,432,229
Adjustment in 2020 income taxes due to change in income tax rate	**-**	(677,349)
Final tax at 20% and 7.5%	**1,182,727**	431,335
	P 2,825,302	P 1,186,215

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

	2022	2021
Tax on pretax profit (loss) at 25%	**P 5,604,173**	(P 2,179,124)
Adjustment for income subjected to lower tax rates	**(101,893)**	(106,989)
Effect of change in income tax rate	**-**	(677,349)
Tax effects of:		
Unrecognized deferred tax assets	**(15,045,367)**	1,931,570
Excess MCIT over RCIT	**11,553,577**	1,432,229
Non-deductible expenses	**1,362,843**	2,952,225
Non-taxable income	**(548,031)**	(2,166,347)
Tax expense	**P 2,825,302**	P 1,186,215

In 2022 and 2021, the Bank is subject to the MCIT which is computed at 1% 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 2022 and 2021 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**
2022	P 11,553,577	P -	P 11,553,577	2025
2021	1,432,229	-	1,432,229	2024
2020	2,683,868	-	2,683,868	2023
2019	710,052	(710,052)	-	2022
	P 16,379,726	**(P 710,052)**	**P 15,669,674**	

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.

Year Incurred	Original Amount	Expired	Applied	Remaining Balance	Valid Until
2022	P 39,472,854	P -	P -	P 39,472,854	2025
2021	6,608,986	-	-	6,608,986	2026
2020	24,288,646	-	-	24,288,646	2025
	P 70,370,486	P -	P -	P 70,370,486	

In 2022 and 2021, 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:

	2022		2021	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 68,593,953**	**P 17,148,488**	P 141,812,260	P 35,453,065
Right-of-use assets	**(57,238,991)**	**(14,309,748)**	(50,814,880)	(12,703,720)
Lease liabilities	**66,976,428**	**16,744,107**	59,505,070	14,876,268
NOLCO	**70,370,486**	**17,592,622**	21,607,658	5,401,915
Past service cost	**15,677,056**	**3,919,264**	17,950,600	4,487,650
Excess MCIT over RCIT	**15,669,674**	**15,669,674**	4,164,358	4,164,358
Rental income differential	**(2,128,842)**	**(532,211)**	(2,128,842)	(532,211)
Retirement benefit asset	**6,034,398**	**1,508,600**	(1,461,634)	118,410
	P 183,954,162	**P 57,740,796**	P 191,622,584	P 51,265,735

20.2 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.

21. 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, 2022 and 2021 is as follows:

Related Party Category	Notes	2022 Amount of Transaction	2022 Outstanding Balance	2021 Amount of Transaction	2021 Outstanding Balance
Parent Bank					
Cash deposits	8, 21.2	**P 4,315,572**	**P 76,889,944**	P 25,834,170	P 81,205,516
Interest income on deposits	21.2	**100,085**	**-**	250,235	-
Rent income	11, 12	**558,075**	**-**	1,070,480	294,182
Expenses:					
Occupancy	18, 21.3	**6,638,674**	**-**	3,997,842	-
Messengerial, janitorial and security	18, 21.3	**1,696,974**	**-**	1,219,079	-
Power, light and water	18, 21.3	**60,007**	**-**	45,732	-
Retirement plan	19.2, 21.5	**1,781,303**	**35,399,213**	515,381	32,180,516
Related Parties Under Common Ownership					
Advances granted	21.4	**4,022,630**	**-**	-	4,022,630
Key Management Personnel Compensation	21.6	**19,766,252**	**-**	18,670,143	-

21.1 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, 2022 and 2021, the Bank has DOSRI loans amounted to P5.64 million and P0.14 million, respectively, and is in compliance with these regulatory requirements [see Note 24(f)].

21.2 Bank Deposits

As of December 31, 2022 and 2021, the Bank has deposit accounts with RCBC, parent bank, amounting to P76.89 million and P81.21 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, 2022 and 2021, which are secured by the related parties' investments in government securities.

21.3 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 18).

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, 2022 and 2021.

21.4 Advances

In 2021, 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 was no similar transaction in 2022.

21.5 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, 2022 and 2021, are shown in Note 19.2.

In 2022, the Bank made an additional contribution to the retirement plan amounting to P5.0 million. No similar transaction in 2021.

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

21.6 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P19.77 million and P18.67 million in 2022 and 2021, respectively.

22. COMMITMENTS AND CONTINGENCIES

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

22.1 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 17).

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 are as follows:

	2022	2021
Within one year	**P 645,886**	P 561,576
After one year but not more than two years	**665,263**	645,886
After two years but not more than three years	**685,221**	665,263
After three years but not more than four years	**705,777**	685,221
After four years but not more than five years	**726,951**	705,777
More than five years	**8,583,684**	9,310,635
	P 12,012,782	P 12,574,358

22.2 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, 2022 and 2021, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

22.3 Capital Commitments

As of December 31, 2022 and 2021, the Bank has no contractual commitment for the acquisition of Bank premises, furniture, fixtures and equipment, and Investment properties (see Notes 10 and 11).

23. MATURITY ANALYSIS OF RESOURCES AND LIABILITIES

		2022			2021		
	Notes	**Within One Year**	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Resources							
Cash	8	**P 12,754,048**	**P -**	**P 12,754,048**	P 12,496,095	P -	P 12,496,095
Due from BSP	8	**113,687,087**	**-**	**113,687,087**	121,830,106	-	121,830,106
Due from other banks	8	**124,000,360**	**-**	**124,000,360**	104,231,109	-	104,231,109
Loans arising from reverse repurchase agreements	8	**23,946,353**	**-**	**23,946,353**	-	-	-
Loans and other receivables	9	**673,552,342**	**522,222,221**	**1,195,774,563**	531,887,091	434,647,403	966,534,494
Other resources	12	**-**	**17,170,367**	**17,170,367**	294,182	28,973,725	29,267,907
		947,940,190	**539,392,588**	**1,487,332,778**	770,738,583	463,621,128	1,234,359,711
Non-financial Resources							
Bank premises, furnitures, fixtures and equipment – net	10	**-**	**115,123,858**	**115,123,858**	-	141,710,244	141,710,244
Investment properties – net	11	**-**	**57,934,857**	**57,934,857**	-	51,807,916	51,807,916
Other resources	12	**11,560,061**	**5,872,390**	**17,432,451**	11,281,680	5,342,570	16,624,250
		11,560,061	**178,931,105**	**190,491,166**	11,367,895	193,130,575	204,498,470
		P 959,500,251	**P 718,323,693**	**P 1,677,823,944**	P 782,020,263	P 662,481,858	P 1,444,502,121

	Notes	2022 Within One Year	2022 Beyond One Year	2022 Total	2021 Within One Year	2021 Beyond One Year	2021 Total
Financial Liabilities							
Deposit liabilities	13	**P 728,223,837**	**P 321,730,913**	**P 1,049,954,750**	P 537,960,785	P 291,375,508	P 829,336,293
Accrued interest and other expenses	14	**12,301,861**	**-**	**12,301,861**	11,683,137	-	11,683,137
Other liabilities	15	**51,574,506**	**55,409,659**	**106,984,165**	60,432,518	47,938,300	108,370,818
		792,100,204	**377,140,572**	**1,169,240,776**	610,076,440	339,313,808	949,390,248
Non-financial Liabilities							
Accrued interest and other expenses	14	**3,104,114**	**-**	**3,104,114**	2,979,088	-	2,979,088
Other liabilities	15	**1,741,178**	**-**	**1,741,178**	819,849	-	819,849
		4,845,292	**-**	**4,845,292**	3,798,937	-	3,798,937
		P 796,945,496	**P 377,140,572**	**P 1,174,086,068**	P 613,875,377	P 339,313,808	P 953,189,185

24. 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:

	2022	2021
Return on average equity		
Net income (loss) / Average total equity	**3.95%**	-2.02%
Return on average resources		
Net income (loss) / Average total resources	**1.32%**	-0.66%
Net interest margin		
Net interest income / Average interest earning resources	**9.46%**	11.92%

(b) *Capital Instruments Issued*

As of December 31, 2022, 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:

	2022		2021	
	Amount	**Share**	Amount	Share
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	**P 691,053,571**	**56%**	P 630,100,268	59%
Agriculture, forestry and fishing	**187,509,803**	**15%**	140,638,890	13%
Transportation, storage and communication	**70,453,600**	**6%**	67,987,991	6%
Hotels and restaurants	**53,849,758**	**4%**	31,310,537	3%
Construction	**51,371,140**	**4%**	29,675,846	3%
Manufacturing	**46,537,831**	**4%**	56,191,942	5%
Real estate, renting and business activities	**29,607,590**	**2%**	30,961,713	3%
Private households with employed persons	**26,867,819**	**2%**	24,418,304	2%
Mining and quarrying	**19,980,361**	**2%**	9,255,842	1%
Electricity, gas and water supply	**10,745,123**	**1%**	16,295,297	2%
Others	**46,441,779**	**4%**	36,397,428	3%
	P 1,234,418,375	**100%**	P 1,073,234,058	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.

	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)	(66,382,037)	(68,593,953)
Net carrying amount	**P 1,127,470,287**	**P 38,354,135**	**P 1,165,824,422**

	2021		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Micro enterprise	P 67,427,164	P 35,162,249	P 102,589,413
SME	347,589,760	37,290,239	384,879,999
Agricultural loan	477,234,379	26,779,362	504,013,741
Salary	5,625,009	-	5,625,009
Other	32,477,224	43,648,672	76,125,896
	930,353,536	142,880,522	1,073,234,058
Allowance for ECL	(24,944,991)	(106,512,285)	(131,457,276)
Net carrying amount	P 905,408,545	P 36,368,237	P 941,776,782

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2022 and 2021 are presented below, net of allowance for ECL.

	2022	2021
Gross NPLs	**P 104,736,172**	P 142,880,522
Allowance for impairment	**(66,382,037)**	(106,512,285)
Net carrying amount	**P 38,354,135**	P 36,368,237

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 P14.97 million and P42.13 million as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounted to P14.14 million and P8.03 million as of December 31, 2022 and 2021, respectively.

Interest income recognized on impaired loans and receivables amounted to P4.16 million and P9.07 million in 2022 and 2021, 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:

	2022	2021
Secured:		
Real estate mortgage	**P 788,644,434**	P 519,095,138
Chattel mortgage	**76,305,041**	34,585,961
Hold-out deposit	**23,533,657**	59,507,423
Others	**3,353,966**	21,225,215
	891,837,098	634,413,737
Unsecured	**342,581,277**	438,820,321
	P 1,234,418,375	P 1,073,234,058

(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, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		**Related Party Loans (inclusive of DOSRI)**	
	2022	2021	**2022**	2021
Total outstanding loans	**P 5,641,894**	P 136,210	**P -**	P -
% of loans to total loan portfolio	**0.46%**	0.01%	**-**	-
% of unsecured loans to total DOSRI/related party loans	**39%**	100%	**-**	-
% 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, 2022 and 2021, 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, 2022 and 2021.

RMB LOAN PRODUCTS AND SERVICES

LOANS

MICROFINANCE LOANS

- SMALL BUSINESS LOAN – LITE PRODUCT (SmallBiz Lite)

The Small Business Loan – Lite (Small Biz Lite) is a loan product offered by Rizal MicroBank, Inc. – A Thrift Bank of RCBC under its Microfinance & Financial Inclusion Group. The said product aims to provide financial capital to micro and small entrepreneurs who are capable to borrow at least P150,000.00 with the intention to improve their business operations. Such access to credit will enable these clients to expand their business and consequently, increase their income. The product primarily targets entrepreneurs who generate daily, weekly, semi-monthly or monthly income, have adequate financial records (whether or not these are formalized through an audited financial statement) and have been operating for at least three years.

- AGRIBIZ LITE

The AgriBiz – Lite (Agri Lite) is a loan product offered by Rizal MicroBank, Inc. – A Thrift Bank of RCBC under its Microfinance & Financial Inclusion Group. The said product aims to provide financial capital to agricultural value chain players, such as but not limited to producers, growers, traders, consolidators, processors, and input dealers/ retailers, including farmers or growers for certain agricultural products or activities. These players must be capable of earning an income on a weekly, semi-monthly or monthly basis, with certain exceptions allowed for lumpsum payments depending on the nature of business. Loan amount ranges from P150,000 to P500,000 subject to client's capacity to pay.

- AGRI PRODUCTION LOAN

The Agri Production Loan is a product offered to individual farmers and farmer organizations in the business of producing agricultural products such as but not limited to crops, livestock, poultry and fisheries.

SMALL BUSINESS LOANS

- SmallBiz Term Loan

The SmallBiz Term Loan is an individual loan product designed to cater the financial needs of businessmen who wish to further improve their business operations. It aims to make available affordable and easily accessible credit to entrepreneurs to help them finance and/or expand their present business operations and increase their incomes. The product primarily targets entrepreneurs who generate regular daily, weekly, semi-monthly or monthly income, have financial records and have the required number of years and experience in running their business. Primarily, SmallBiz Term Loan is granted for the following loan purpose: Additional Working Capital, Purchase of business equipment and vehicle, and Business expansion and branching. Documentary requirements vary from Microenterprise loans. Loan amount ranges from P150,000 to P10M subject to client's capacity to pay but not more than 60% of the collateral's appraised value.

- SmallBiz-Revolving Credit Line

The SmallBiz - Revolving Credit Line is a flexible, standby, individual loan product of Rizal Microbank, A Thrift Bank of RCBC. The SmallBiz Revolving Credit Line allows a borrower to borrow money from the Bank without the hassle of applying for a loan every time the need for funds arises. It is a reusable source of funds that can readily be tapped at the borrower's discretion subject to approved credit line limit and term set by the Bank. The line will be available for one year, available via 30-day to 180-day PN. During this allotted period of time, the facility will allow the borrower to take out, repay, and take the loan out again, and allow the borrower to use as much of the credit as is available and only pay interest on what has been used. Loan amount ranges from P500,000 to P10M subject to client's capacity to pay but not more than 60% of the collateral's appraised value.

AGRI FINANCE LOANS

- AgriBiz Term Loan

The AgriBiz Term Loan is an individual loan product designed to cater the financial needs of businessmen who wish to further improve their business operations. It aims to make available affordable and easily accessible credit to entrepreneurs to help them finance and/or expand their present business operations and increase their incomes. The product primarily targets entrepreneurs who generate regular daily, weekly, semi-monthly or monthly income, have financial records and have the required number of years and experience in running their business. This loan is specifically granted to Agri-value chain players such as producers/growers, traders/consolidators, processors, and input dealers/retailers including farmer growers for certain agri products and/or activities. Loan amount ranges from P50,000 to P10M subject to client's capacity to pay or 60% of the collateral's appraised value, whichever is lower.

- AgriBiz – Revolving Credit Line

The AgriBiz Term Loan is an individual loan product designed to cater the financial needs of businessmen who wish to further improve their business operations. It aims to make available affordable and easily accessible credit to entrepreneurs to help them finance and/or expand their present business operations and increase their incomes. The product primarily targets entrepreneurs who generate regular daily, weekly, semi-monthly or monthly income, have financial records and have the required number of years and experience in running their business. This loan is specifically granted to Agri-value chain players such as producers/growers, traders/consolidators, processors, and input dealers/retailers including farmer growers for certain agri products and/or activities. Loan amount ranges from P50,000 to P10M subject to client's capacity to pay or 60% of the collateral's appraised value, whichever is lower.

DEPOSITS

ORDINARY SAVINGS/ REGULAR SAVINGS DEPOSIT (PASSBOOK-BASED)

Ordinary Savings/ Regular Savings Deposit (Passbook-Based)

It is a regular passbook-evidenced and interest-bearing deposit product that has a fixed interest rate and can be withdrawn anytime. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Ordinary Savings Account is subject to the applicable final withholding tax of 20%. Opening of Ordinary Savings Account is governed with the general provisions stipulated under the Terms and Conditions of Deposits by the bank. Regular Savings Account can be opened by an Individual or a Corporate Account Holder with a required initial deposit amounting to P500.00 and P5,000.00 pesos, and minimum maintaining balance of P1,000.00 and P5,000.00 pesos, respectively.

The Savings Deposit Passbook is a record book of the account which provides the depositor with a record of his deposit and withdrawal transactions, his current outstanding balance as well as the basic regulations governing the deposit.

BASIC DEPOSIT ACCOUNT

A Basic Deposit Account which is a basic, interest-bearing account targeted towards the unbanked, unserved and underserved markets in the Philippines. This product enables financial inclusion through allowing Filipinos to perform financial transactions in an easy, accessible, affordable and convenient manner.

Basic Deposit Account is composed of two types of Individual Deposit Accounts such as Pangarap Savings, offered to clients 18 years old and above, and Munting Pangarap Savings Deposit, offered to clients who are 17 years old and below, with an initial deposit capped at P100.00 pesos only. Unlike Ordinary Savings Deposit Account, BDA has no minimum maintaining balance, no dormancy charges and no service fees upon account closure. Per bank's policy, the required maximum credit balance is set at P45,000.00 only to ensure that the account remains as low-value. It is also an added internal control to give the bank the flexibility for interest accruals and a good signal that the client may be offered to convert his Basic Deposit Account to a Regular Savings Deposit. KYC procedures under BDA are simplified as provided under Item W of Sec. X803 of the MORB. Corporate Accounts, Partnership, Cooperatives, Association, MSME's, private and high-net worth individuals are disqualified to open Basic Deposit Accounts.

CONTRACTUAL SAVINGS DEPOSIT (LOAN-BASED)

It is a regular passbook-evidenced and interest-bearing deposit product that is a component of the bank's loan products. All clients who avail of the Bank's loan products are required to save an amount equivalent to at least 10% of the loan amount for Microenterprise Loan; and as agreed with the client, for Regular Loan. The Contractual Savings is deposited throughout the term of the loan. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank.

The Contractual Savings tied to the loan cannot be withdrawn while the existing loan obligation with the Bank and its corresponding interest and penalties are still outstanding. However, client may be allowed to withdraw from his Contractual Savings subject to the conditions stipulated in the policies and procedures under Contractual Savings Accounts subject for justifications and approval.

DEMAND DEPOSIT ACCOUNT (CHECKING ACCOUNT) (PASSBOOK-BASED AND CHECKBOOK)

Demand Deposit Account or Checking Account is a low-interest bearing deposit product that allows deposits and withdrawals thru the use of checkbooks or passbooks. Checks are issued on dates that issuer and receiver agrees. RMB's Checking Account is cleared thru RCBC. Interest rate shall be reviewed periodically and is subject to change considering changes in the market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Checking Account is subject to the applicable final withholding tax of 20%. Opening of Checking Account is governed with the general provisions stipulated under the Terms and Conditions of Deposits by the bank. Checking Account can be opened by several account types such as Personal, Commercial or Corporate, and Joint Accounts. A Personal or a Corporate Account Holder shall open an account with a required initial deposit amounting to P5,000.00 and P10,000.00 pesos, and required minimum Average Daily Balance to earn interest of P10,000.00 and P20,000.00 pesos, respectively. Maintaining of Checking Account is subject to fees and charges. Checks for clearing and encashment shall be returned based on some technical defects, DAUD or DAIF with corresponding charges.

TIME DEPOSIT (CERTIFICATE)

A deposit product which is evidenced by a Certificate of Time Deposit issued by the Bank with a fixed maturity date and earning an interest rate as specifically agreed upon by the Bank and the depositor. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Time Deposit is subject to the applicable final withholding tax of 20%. It can be opened by an Individual or a Corporate Account Holder with a required initial deposit amounting to P5,000.00 pesos only. In case of pre- termination of Time Deposit, client is required to present the original copy of certificate, the interest earnings shall be based on the approved guidelines at the time of pre-termination, and the account is subject to charging of Documentary Stamp Tax as part of the pre-termination charges.

RMB DIRECTORY (BANKING OFFICES)

CORPORATE BANKING OFFICES

SOUTHERN TAGALOG REGIONAL OFFICE
Bensar Bldg. cor F. Manalo St. Gen. Malvar Ave. Poblacion 3, Sto. Tomas, Batangas
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MAKATI OFFICE
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Tel No.: (02) 8 894 9000 local 1028

MINDANAO BANKING OFFICE

DAVAO HEAD OFFICE
GF and 3rd Floor, Anda Rizal Center Bldg., Cor. Anda & Rizal Streets,
Brgy. 3-A, Poblacion District, Davao City, Davao del Sur
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