Report of Independent Auditors to Accompany Supplementary Information Required by the Bureau of Internal Revenue Filed Separately from the Basic Financial Statements

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

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 for the year ended December 31, 2022, on which we have rendered our report dated February 23, 2023. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information for the year ended December 31, 2022, required by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission. Such supplementary information is the responsibility of management. The supplementary information has 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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WEST DAVAO CITY

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Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Certified Public Accountants to Accompany Income Tax Return

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 Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

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)
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20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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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.

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WEST DAVAO CITY

- 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)
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REVENUE DISTRICT NO. 113A
WEST DAVAO CITY

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 1,677,823,94[illegible]	[illegible],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.

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WEST DAVAO CITY

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)

						Revaluation Reserves			
	Notes	Capital Stock	Deficit	General Loan Loss Reserves	Surplus Reserves	Remeasurements of Retirement Benefit Plan	Unrealized Fair Value Gains	Total	Total Equity
Balance at January 1, 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.

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REVENUE DISTRICT NO. 113A
WEST DAVAO CITY

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	14	30,224,503	31,318,325
Interest expense	13, 15, 19	20,805,267	17,567,634
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	(15,704,313)	(2,803,748)
Gain on sale of investment property	11	(4,454,279)	(9,676,166)
Loss on loan modification	18	5,290,412	1,658,099
Dividend income	12	-	(1,893,000)
Operating profit before working capital changes		22,126,730	28,614,966
Decrease (increase) in loans and receivables		(217,848,821)	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)	(14,163,990)
Payments of bills payable	16	-	(15,000,000)
Net Cash Used in Financing Activities		(15,742,522)	(29,163,990)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		35,830,538	(52,787,221)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8		
Cash		12,496,095	9,262,373
Due from Bangko Sentral ng Pilipinas		121,830,106	127,395,502
Due from other banks		104,231,109	120,197,535
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, [illegible] 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.

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J. M. B. JAMBANGAN
REVENUE DISTRICT NO. 113A
WEST DAVAO CITY

Reference No : 462300053628791
Date Filed : April 28, 2023 04:19 PM
Batch Number : 0

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

For BIR Use Only: BCS/ Item:

BIR Form No. **1702-RT** January 2018(ENCS) Page 1	**Annual Income Tax Return** **For Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate** *Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X". Two Copies MUST be filed with the BIR and one held by the taxpayer.*	1702-RT 01/18ENCS P1

1 For: Calendar / Fiscal; 2 Year Ended (MM/20YY): 12/2022	3 Amended Return? Yes / No	4 Short Period Return? Yes / No	5 Alphanumeric Tax Code (ATC): IC055 Minimum Corporate Income Tax (MCIT); IC010 DOMESTIC CORPORATION IN GENERAL

Part I - Background Information

6 Taxpayer Identification Number (TIN)	000 - 648 - 880 - 000
7 RDO Code	113
8 Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)*	RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC
9A Registered Address *(Indicate complete registered address)*	ANDARIZAL CENTER BLDG. COR. ANDA AND RIZAL STREET, BRGY 3-A DAVAO CITY
9B Zipcode	8000
10 Date of Incorporation/Organization (MM/DD/YYYY)	05/29/1995
11 Contact Number	09454704331
12 Email Address	merchantsreport@rizalmicrobank.com
13 Method of Deductions	Itemized Deductions [Section 34 (A-J), NIRC] / Optional Standard Deduction (OSD) - 40% of Gross Income [Section 34(L), NIRC as amended by RA No. 9504]

Part II - Total Tax Payable *(Do NOT enter Centavos)*

14 Total Income Tax Due (Overpayment) *(From Part IV Item 43)*		1,642,575
15 Less: Total Tax Credits/Payments *(From Part IV Item 55)*		1,282,388
16 Net Tax Payable (Overpayment) *(Item 14 Less Item 15) (From Part IV Item 56)*		360,187
Add Penalties		
17 Surcharge	90,047	
18 Interest	2,566.57 1,303	
19 Compromise	20,573.07 0	
20 Total Penalties *(Sum of Items 17 to 19)*		91,350
21 TOTAL AMOUNT PAYABLE (Overpayment) *(Sum of Item 16 and 20)*		451,537

If Overpayment, mark "X" one box only *(Once the choice is made, the same is irrevocable)*

To be refunded / To be issued a Tax Credit Certificate (TCC) / To be carried over as tax credit next year/quarter

We declare under the penalties of perjury that this return has been made in good faith, verified by us, and to the best of our knowledge and belief, is true and correct pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. (If Authorized Representative, attach authorization letter)

RAYMUNDO C. ROXAS	ANA A. DIAMANTE	22 Number of Attachments
Signature over printed name of President/Principal Officer/Authorized Representative	Signature over printed name of Treasurer/Assistant Treasurer	
Title of Signatory: PRESIDENT; TIN: 315367455	Title of Signatory: TREASURER; TIN: 315367455	4

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REVENUE DISTRICT NO. 113A
WEST DAVAO CITY

Part III - Details of Payment

Particulars	Drawee Bank/Agency	Number	Date (MM/DD/YYYY)	Amount
23 Cash/Bank Debit Memo				0
24 Check				0
25 Tax Debit Memo				0
26 Others (Specify Below)				
				0

Machine Validation/Revenue Official Receipts Details *(If not filed with an Authorized Agent Bank)* | Stamp of Receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)

BIR Form No. 1702-RT January 2018(ENCS) Page 2	Annual Income Tax Return Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P2

Taxpayer Identification Number (TIN)	Registered Name
000 - 648 - 880 - 000	RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC

Part IV - Computation of Tax *(Do NOT enter Centavos)*

27 Sales/Receipts/Revenues/Fees	174,272,896
28 Less: Sales Returns, Allowances and Discounts	0
29 Net Sales/Receipts/Revenues/Fees *(Item 27 Less Item 28)*	174,272,896
30 Less: Cost of Sales/Services	65,591,554
31 Gross Income from Operation *(Item 29 Less Item 30)*	108,681,342
32 Add: Other Taxable Income Not Subjected to Final Tax	55,576,306
33 **Total Taxable Income** *(Sum of Items 31 and 32)*	164,257,648

Less: Deductions Allowable under Existing Law

34 Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	203,730,502	
35 Special Allowable Itemized Deductions *(From Part VI Schedule II Item 5)*	0	
36 NOLCO *(only for those taxable under Sec. 27(A to C); Sec. 28(A)(1) & (A)(6)(b) of the tax Code) (From Part VI Schedule III Item 8)*	0	
37 Total Deductions *(Sum of Items 34 to 36)*	203,730,502	
OR *[in case taxable under Sec 27(A) & 28(A)(1)]*		
38 Optional Standard Deduction *(40% of Item 33)*	0	

39 **Net Taxable Income/(Loss)** *(If Itemized: Item 33 Less Item 37; If OSD: Item 33 Less Item 38)*	(39,472,854)
40 **Applicable Income Tax Rate**	25 %
41 Income Tax Due other than Minimum Corporate Income Tax (MCIT) *(Item 39 x Item 40)*	0
42 MCIT Due *(2% of Item 33)*	1,642,575
43 **Tax Due** *(Normal Income Tax Due in Item 41 OR the MCIT Due in Item 42, whichever is higher) (To Part II Item 14)*	1,642,575

Less: Tax Credits/Payments (attach proof)

44 Prior Year's Excess Credits Other Than MCIT	210,625
45 Income Tax Payment under MCIT from Previous Quarter/s	603,397
46 Income Tax Payment under Regular/Normal Rate from Previous Quarter/s	0
47 Excess MCIT Applied this Current Taxable Year *(From Part VI Schedule IV Item 4)*	0
48 Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307	25,293
49 Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter	443,073
50 Foreign Tax Credits, if applicable	0
51 Tax Paid in Return Previously Filed, if this is an Amended Return	0
52 Special Tax Credits *(To Part V Item 58)*	0
Other Credits/Payments *(Specify)*	
53	0
54	0

55 Total Tax Credits/Payments *(Sum of Items 44 to 54) (To Part II Item 15)*	1,282,388
56 **Net Tax Payable / (Overpayment)** *(Item 43 Less Item 55)) (To Part II Item 16)*	360,187

Part V - Tax Relief Availment

57 Special Allowable Itemized Deductions *(Item 35 of Part IV x Applicable Income Tax Rate)*	0
58 Add: Special Tax Credits *(From Part IV Item 52)*	0
59 **Total Tax Relief Availment** *(Sum of Items 57 and 58)*	0

BIR Form No. **1702-RT** January 2018(ENCS) Page 3	**Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P3

Taxpayer Identification Number (TIN)	Registered Name
000 - 648 - 880 - 000	RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC

Schedule I - Ordinary Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

1 Amortizations	2,129,511
2 Bad Debts	47,790,840
3 Charitable Contributions	0
4 Depletion	0
5 Depreciation	15,785,551
6 Entertainment, Amusement and Recreation	0
7 Fringe Benefits	0
8 Interest	0
9 Losses	0
10 Pension Trust	0
11 Rental	17,275,353
12 Research and Development	0
13 Salaries, Wages and Allowances	45,280,031
14 SSS, GSIS, Philhealth, HDMF and Other Contributions	6,245,414
15 Taxes and Licenses	19,959,768
16 Transportation and Travel	3,244,486
17 Others (Deductions Subject to Withholding Tax and Other Expenses) *(Specify below: Add additional sheet(s), if necessary)*	
a Janitorial and Messengerial Services	11,852,206
b Professional Fees	4,743,504
c Security Services	0
d POSTAGE AND UTILITIES	5,446,213
e POWER, LIGHT AND WATER	3,881,074
f INSURANCE	3,307,447
g INFORMATION TECHNOLOGIES EXPENSE	3,101,873
h OFFICE SUPPLIES	2,440,909
i OTHERS	11,244,322
i.1 REPAIRS AND MAINTENANCE	2,413,445
i.2 FUEL AND LUBRICANT	2,333,625
i.3 ADVERTISING PUBLICITY	605,795
i.4 MISCELLANEOUS	5,891,457
18 Total Ordinary Allowable Itemized Deductions *(Sum of Items 1 to 17) (To Part IV Item 34)*	203,730,502

Schedule II - Special Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

	Description	Legal Basis	Amount
1			0
2			0
3			0
4			0
5 Total Special Allowable Itemized Deductions *(Sum of Items 1 to 4) (To Part IV Item 35)*			0

BIR Form No. 1702-RT January 2018(ENCS) Page 4	**Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P4

Taxpayer Identification Number (TIN)	Registered Name
000 - 648 - 880 - 000	RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC

Schedule III - Computation of Net Operating Loss Carry Over (NOLCO)

1 Gross Income *(From Part IV Item 33)*	164,257,648
2 Less: Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	203,730,502
3 Net Operating Loss*(Item 1 Less Item 2) (To Schedule IIIA, Item 7A)*	(39,472,854)

Schedule IIIA - Computation of Available Net Operating Loss Carry Over (NOLCO) *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

Net Operating Loss: Year Incurred	Net Operating Loss: A) Amount	B) NOLCO Applied Previous Year
4 2022	39,472,854	0
5 2021	6,608,986	0
6 2020	24,298,646	0
7	0	0

Continuation of Schedule IIIA (Item numbers continue from table above)

C) NOLCO Expired	D) NOLCO Applied Current Year	E) Net Operating Loss (Unapplied) *[E = A Less (B + C + D)]*
4 0	0	39,472,854
5 0	0	6,608,986
6 0	0	24,298,646
7 0	0	0
8 **Total NOLCO** *(Sum of Items 4D to 7D) (To Part IV, Item 36)*	0	

Schedule IV - Computation of Minimum Corporate Income Tax (MCIT)

Year	A) Normal Income Tax as adjusted	B) MCIT	C) Excess MCIT over Normal Income Tax
1 2021	0	1,432,229	1,432,229
2 2020	0	2,683,868	2,683,868
3 2019	2,916,759	3,626,811	710,052

Continuation of Schedule IV (Item numbers continue from table above)

D) Excess MCIT Applied/Used in Previous Years	E) Expired Portion of Excess MCIT	**F) Excess MCIT Applied this Current Taxable Year**	G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Year/s [G = C Less (D + E + F)]
1 0	0	0	1,432,229
2 0	0	0	2,683,868
3 0	710,052	0	0
Total Excess MCIT Applied *(Sum of Items 1F to 3F) (To Part IV Item 47)*		0	

Schedule V - Reconciliation of Net Income per Books Against Taxable Income *(attach additional sheet/s, if necessary)*

1 Net Income/(Loss) per books	22,416,690
Add: Non-deductible Expenses/Taxable Other Income	
2 AMORTIZATION OF RIGHT-OF-USE-ASSETS	12,309,441
3 OTHERS	11,569,929
3.1 INTEREST EXPENSE FROM LEASE LIABILITY	4,556,365
3.2 RETIREMENT BENEFIT EXPENSE	4,802,193
3.3 LOSS ON MODIFICATION	1,290,452
3.4 PENALTIES	541,224
3.5 INTEREST EXPENSE	379,695
4 Total *(Sum of Items 1 to 3)*	46,296,060
Less: A) Non-Taxable Income and Income Subjected to Final Tax	
5 INCOME SUBJECTED TO FINAL TAX	1,898,476
6 OTHERS	83,870,438
6.1 WRITTEN OFFS	47,790,840
6.2 IMPAIRMENT LOSS ON LOANS	15,756,114
6.3 LEASE PAYMENTS	15,742,522
6.4 AMORTIZATION OF PAST SERVICE COST	2,273,541
6.5 AMORTIZATION OF LOSS ON MODIFICATION	2,192,122
6.6 INTEREST EXPENSE FROM RETIREMENT PLAN	95,244
6.7 RECOVERY OF IMPAIRMENT LOSS ON AR	20,055
B) Special Deductions	
7	0

8	0
9 Total (Sum of Items 5 to 8)	85,768,914
10 Net Taxable Income/(Loss) (Item 4 Less Item 9)	(30,472,854)

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

FILING REFERENCE NO.

TIN	: 000-648-880-000
Name	: RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC
RDO	: 113
Form Type	: 1702
Reference No.	: 462300053628791
Amount Payable (Over Remittance)	: 451,537.00
Accounting Type	: C - Calendar
For Tax Period	: 12/31/2022
Date Filed	: 04/28/2023
Tax Type	: IT

Proceed to Payment

Republika ng Pilipinas
Kagawaran ng Pananalapi
Kawanihan ng Rentas Internas

eFPS Payment Details

TIN	: 000 - 646 - 880 - 000
Name	: RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC
Tax Period	: 12/31/2022
Reference Number	: 462300053628791
Tax Type	: IT - Annual Income Tax Return (REGULAR)

Payment Transaction Number	: 234346928
Date	: 04/28/2023
Cash Amount Paid	: 451,537.00
Bank	: 026000 - RCBC

Origin	Bank Code	Amount	Number	Date	Status	Message	CBR BCS No.
Pending Online Confirmation	026000	451,537.00	-		Unknown	60 - Details of Payment were redirected to the corresponding Bank. Please verify with your Bank.	57735
Batch Confirmation	026000	451,537.00	04282023162851793003	04/28/2023	Authorized	0 - Successful	57735
Batch Acknowledgment	026000	451,537.00	04282023162851793003	04/28/2023	Authorized	0 - Successful	57735

Total Payments (Successful/Unsuccessful): 451,537.00
Total Payments (Successful) : 451,537.00

Print Close

Republika ng Pilipinas
Kagawaran ng Pananalapi
Kawanihan ng Rentas Internas

eFPS Payment Details

TIN	: 000 - 648 - 880 - 000
Name	: RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC
Tax Period	: 12/31/2022
Reference Number	: 462300053628791
Tax Type	: IT - Annual Income Tax Return (REGULAR)

Payment Transaction Number	: 234346928
Date	: 04/28/2023
Cash Amount Paid	: 451,537.00
Bank	: 026000 - RCBC

Origin	Bank Code	Amount	Number	Date	Status	Message	CBR BCS No.
Pending Online Confirmation	026000	451,537.00	-		Unknown	60 - Details of Payment were redirected to the corresponding Bank. Please verify with your Bank.	57735
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Batch Acknowledgment	026000	451,537.00	04282023162851793003	04/28/2023	Authorized	0 - Successful	57735

Total Payments (Successful/Unsuccessful): 451,537.00
Total Payments (Successful) : **451,537.00**

Print Close

Mary Joy Torres <mvtorres@rizalmicrobank.com>

[Merchants Report] BIR Email Notification (ePayment)

no-reply@bir.gov.ph <no-reply@bir.gov.ph> Fri, Apr 28, 2023 at 4:21 PM
To: merchantsreport@rizalmicrobank.com

Good Day RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC,

Thank you for filing and paying your tax liabilities through eFPS. This email notification indicates that:

A. For Mode of Payment Using Bank Transfer, your Tax Payment Instruction (see below, eFPS Payment Summary) had been forwarded to the BIR-Authorized Agent Bank (BIR-AAB) for processing. Please note that the said eFPS Payment Summary does not reflect the completion of your tax payment transaction yet.

B. For Mode of Payment Using Tax Debit Memo (TDM) or Tax Remittance Advice (TRA), your Tax Payment has been acknowledged.

You may receive several of this email notification with the same Filing Reference Number depending on the number of Tax Payment Instruction you have submitted. To ensure that the tax payment/s were processed, please inquire your eReturn's Payment Details thru the eFPS *Tax Return Inquiry.*

From,

Bureau of Internal Revenue

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

eFPS PAYMENT SUMMARY

TIN	: 000-648-880-000
Name	: RIZAL MICROBANK, INC. - A THRIFT BANK OF RCBC
RDO	: 113
Bank	: 026000
Filing Reference No.	: **462300053628791**
Payment Transaction No.	: **234346928**
Actual Amount Paid / (Over Remittance)	: 451537.00
TDM Amount	: 0.00
TRA Amount	: 0.00

PLEASE DO NOT REPLY TO THIS E-MAIL

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **Rizal Microbank, Inc. – A Thrift Bank of RCBC** (the Company) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of **Rizal Microbank, Inc. – A Thrift Bank of RCBC** are complete and correct in all material respects. Management likewise affirms that:

(a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulations No.8-2007 and other relevant issuances;

(c) **Rizal Microbank, Inc. – A Thrift Bank of RCBC** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Eugene S. Acevedo
Chairman of the Board

Raymundo C. Roxas
President

Ava A. Diamante
Treasurer

Signed this 14th day of April 2023

RECEIVED
Bureau of Internal Revenue, RR 19
MAY 02 2023
J. M. B. JAMBANGAN
REVENUE DISTRICT NO. 113A
WEST DAVAO CITY

P&A Grant Thornton

FOR SEC FILING

Financial Statements and Independent Auditors' Report

Rizal Microbank, Inc. – A Thrift Bank of RCBC

December 31, 2022 and 2021

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

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.

- 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

P&A Grant Thornton

Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

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
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

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)

						Revaluation Reserves			
	Notes	Capital Stock	Deficit	General Loan Loss Reserves	Surplus Reserves	Remeasurements of Retirement Benefit Plan	Unrealized Fair Value Gains	Total	Total Equity
Balance at January 1, 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:

		2022		2021	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	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

	Notes	**2022** Within One Year	Beyond One Year	Total	2021 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		
$\frac{\text{Net income (loss)}}{\text{Average total equity}}$	**3.95%**	-2.02%
Return on average resources		
$\frac{\text{Net income (loss)}}{\text{Average total resources}}$	**1.32%**	-0.66%
Net interest margin		
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	**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 Amount	2022 Share	2021 Amount	2021 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	2022 Non-performing	2022 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.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative to do so.

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

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Eugene S. Acevedo
Chairman of the Board

Raymundo C. Roxas
President

Nestorio D. dela Cruz Jr.
Accounting Head

Signed this 14th day of April 2023