Porac Bank

2022 ANNUAL REPORT

#WeAreReady

Contents

Corporate Profile

Porac Bank is a closed family bank founded by Primo and Servillana David, Marciano Dizon, Mamerto De Mesa, Irmelo David, Vicente David, and Juan Cuyugan in 1968 to help the communities around Porac reach their financial goals. Five decades later, Porac Bank witnessed a continued growth under the leadership of the four founders and their families. The sincere commitment of the four founders to serve the financial needs of their people has become the single most important legacy the founders have handed over to the succeeding generations.

The importance of heritage has cultivated seasoned experts and leaders from the four families to wit David, Dizon, De Mesa, and Cuyugan. This, coupled with a customer-centric culture and a roster of dynamic professionals individuals certainly set Porac Bank apart from the competition pushing it further to become one of the leading rural banks in Central Luzon.

Today, Porac Bank has expanded its branch network throughout the busiest and most progressive towns and cities of Pampanga and Tarlac including Angeles City, Mabalacat City, City of San Fernando, and the towns of Magalang, Porac, Arayat, Mexico, Floridablanca, Concepcion, Tarlac and Tarlac City, Tarlac. The bank offers traditional banking products viz. regular passbook savings, checking account, time deposit, and loans for commercial, consumption, housing, and Agri Agra purposes. With a total of thirteen branches, Porac Bank hopes to widen its reach and move its doors closer to the unbanked and underserved people in Central Luzon.

Vision

To be the preferred community bank in Central Luzon driven by generational relationships and shared growth.

Mission

We are Porac Bank. We are in the business of fulfilling the aspirations of our stakeholders and building communities in Central Luzon.

We provide prompt financial services to individuals of varied interests, thriving MSMEs through our customer-oriented professionals who are responsive, caring, and open to the needs of our clients.

We are driven to be competitive to sustain growth and stability, prudent in the management of our resources, steadfast in developing diversified businesses.

We uphold to protect the interest of our clients, employees, and shareholders with integrity, fairness, and honesty in all our dealings.

We partner with our employees in building a progressive and profitable banking institution by fostering a working environment that recognizes individual worth and rewards outstanding performance.

Core Values

We believe in Malasakit –a long-held Filipino virtue that is deeply embedded in our culture and what sets us apart from the competition. It is what drives us to do business on a personal level in that we consider our employees and clients as if they are part of our own family. It is the proclivity to always go the extra mile and do more than what is expected of us, of true altruism extended to secure the best interest of the bank and its stakeholder. We are Porac Bank and we are driven with Malasakit.

Malasakit cultivates positive relationships. Malasakit resonates with our people. It is what has allowed us to build and maintain generational relationships; one that goes beyond mere business and employee-employer connection.

Malasakit drives Excellence. Malasakit best describes the common and inherent desire among our people to provide banking solutions that will foster shared growth for the bank, the employees, the clients and the community it operates in. It is the consciousness that prods us to continuously seek better ways to help our stakeholders make the best possible financial decisions.

Malasakit drives Integrity. Malasakit is naturally exuded by our people towards the bank and its stakeholders. It fuels our commitment to upholding strong business ethics.

MESSAGE FROM THE

CHAIRPERSON

Since 2020, business paradigms and practices drastically changed due to COVID-19. The pandemic ushered a period of changes and challenges, locally and globally. Looking back, we at Porac Bank, pride ourselves in being unrelenting and resilient as we successfully navigated and surpassed the challenges that beset us for the past two years.

Porac Bank marked Year 2022 with important milestones and breakthroughs amidst disruptions and volatility as we emerged with a clearer direction from all the lockdowns resulting from the global pandemic.

We review the year with the lens of gratitude and growth. This allowed us to magnify the value of our collective efforts towards a shared goal and at the same time, determine the necessary steps to be taken as we strive towards a more resilient Porac Bank for our stakeholders. As a result, we were able to lock in our previous gains and established a stronger financial position by year-end as we unswervingly uphold what Porac Bank stands for, to "make it happen".

As we forge ahead and steadily tread forward, we are more than ready to seize new opportunities, rise to unexpected challenges and keep attuned to evolving changes in the banking industry. Focused on our digitalization initiatives and capacity building strategies, we aspire to take a formidable lead in the local banking industry and be a step ahead of our competitors. With our best days behind us, WeAreReady to thrive, flourish and move forward to the new normal with renewed commitment to elevate our performance to be the best in the region and carry on the legacy of dedicated rural banking for all our stakeholders.

BENJAMIN C. DIZON, M.D
CHAIRPERSON

MESSAGE FROM THE
PRESIDENT

The year 2022 manifested significant peaks and valleys as we continue to recover from the impact of the COVID-19 pandemic and deal with the uncertainties that comes with it. The banking sector, in general, was faced with numerous challenges as a result of the pandemic's widespread economic consequences.

Last year, we welcomed a new administration that was confronted with external headwinds caused by the ongoing Ukraine-Russia Crisis and the United States battle against inflation. This spilled over into a weakening Peso along with skyrocketing prices of oil, electricity and basic goods which prompted the Bangko Sentral to increase its policy interest rates to temper the country's inflation.

Despite the global economic turmoil, Porac Bank continued to show readiness and resilience as we delved into these challenges head-on and explored ways to overcome them. Our readiness to embrace and resilience to respond to the disruptive and ever-changing dynamics of the business environment is pivotal to our steady growth and stronger financial position by year-end 2022.

We remain driven and agile in pursuing our capabilities and orchestrated our operational strategies towards the attainment of our corporate goals and objectives. Backed by the able stewardship of our insightful and judicious board, our partnership with our competent and highly-engaged workforce and the support of our shareholders and dear customers, WeAreReady to navigate the post-pandemic world in an increasingly competitive market.

Armed with our proven track record, our strategic game plan for solid growth and our operational road map for sustainability- WeAreReady to take that bold step towards 2023 and beyond!

LOURDES CONNIE C. TAYAG
PRESIDENT

FINANCIAL
HIGHLIGHTS

	2022	2021
Profitability		
Total Net Interest Income	131,833,340.00	153,156,934.00
Total Non-Interest Income	56,550,542.00	33,611,169.00
Total Non-Interest Expenses	137,045,161.00	134,559,493.00
Pre-provisioning Profit	51,338,721.00	52,208,610.00
Provision for Credit and Impairment Losses	205,769.00	16,851,157.00
Net Income	43,584,736.00	31,868,751.00
Selected Balance Sheet Data		
Liquid Assets	956,110,138.00	743,650,952.00
Gross Loans	1,240,762,743.00	1,269,282,118.00
Allowance for Credit Losses	64,081,035.00	68,653,733.00
Total Assets	2,383,335,930.00	2,159,860,565.00
Deposits	1,905,284,450.00	1,699,820,619.00
Total Equity	391,004,396.00	363,753,381.00
Selected Ratios		
Return on Equity	11.55%	9.16%
Return on Assets	1.92%	1.53%
Capital Adequacy Ratio	22.50%	21.13%
Per Common Share		
Basic Net Income per share	17.30	12.65
Diluted Net Income per share	17.30	12.65
Book Value per share	155.20	144.39
Others		
Cash Dividends Declared	8,817,568.00	5,038,610.00
Headcount	163	160
Officers	42	46
Staff	121	114

TOTAL RESOURCES
PhP2.4Billion

Amid a strengthening economic climate, Porac Bank navigated 2022 with a profoundly optimistic note, generating a robust net operating performance of P43.585Million, rising by 36.76% from P31.869Million in the previous financial year. In line with the new global environment, the Bank pursued its strategic roadmap of driving growth by focusing on refining its loan portfolio allocation in view of managing risk and shedding low-yield investments to increase profitability.

As the bank reinforced its risk acceptance standards, Loans and Receivable portfolio registered a slight decline of 1.78%. Another factor that drove the contraction in the credit portfolio is the post pandemic economic environment that unfolded which was characterized by comparatively high nominal interest rates, heightening competition among market players. To manage interest rates and leverage market conditions, the bank deployed its excess deposit inflows into Debt Securities that create economically attractive returns thereby increasing our investment portfolio by P286.73Million. Interest income remained stable at P140.791Million despite a volatile interest rate environment and a competitive market. Banking activities that generate fee-related income reflected a formidable 83.98% increase at P10.959Million as against 2021's year-end figure of P5.958Million. The bank has continued to reap modest gains equal to P44.571Million in the disposal of real and other properties acquired assets.

Past due ratio has also shown momentous improvement from 13.04% in 2021 to a single-digit figure of 8.15% in 2022 as a result of revamping the bank's debt collection strategy to augment loan recoveries and reduce further slippages.

The Retirement Benefit Asset recorded at P18.049Million is lower than P22.753Million posted in 2021 is the effect of adjustments made on the fair value of plan assets which also translated to significant changes in the Cumulative Re-measurement Gains (Losses) on Defined Benefit Plans from P582.359Thousand in 2021 to (P6.905Million) in 2022.

Our focus on operational excellence has helped Porac Bank keep its expenses at bay, registering a marginal decline by 6.07% at P153.757Million. Allowance for Credit Losses settled at P64.081M, a 6.66% reduction against previous year's total of P68.653Million while Provision for Credit and Impairment Losses slowed down to P205.77Thousand, lower by 98.79% from last year primarily due to improvements in the bank's credit quality. At the end of 2022, interest expense closed at P8.958M, higher from P8.797Million reflected in 2021 on account of a growing deposit portfolio.

Strides made in building our deposit base has exceeded prior year's gain in deposit levels by closing the year at P1.905Billion compared to previous year's figure of P1.699Billion reflecting a strong 12.12% build up. The decline in the recorded amount of right of use assets by P9.23Million in 2022 and lease liability amounting to P5.206Million under Other Liabilities is attributed to the recognition of depreciation expense in its asset value and the related lease amortization and interest expense for the year ended December 31, 2022. Accounts Payable disclosed under Other Liabilities were lower at P1.565Million in 2022 from P10.591Million in the previous year mainly due to movements in acquired assets and the early release dates of SSS pension benefits.

Leveraging on building strong corporate relationships, awards and recognition were conferred to employees for being paragons of excellence in their specific fields increasing accrued expense for the year at P16.012Million in 2022 which is significantly higher than P10.760Million in 2021. Major changes also affecting the Accrued Expense Payable account is due to increase in accrued interest on deposit accounts, PDIC insurance, expenses incurred on advertising and publicity and taxes.

The Bank's capital position remained solid with a capital adequacy ratio of 22.50% which is more than sufficient to cover planned operations and material risks.
We managed to mark 2022 with respectable results over a trajectory of return ratios by delivering a Return on Asset (ROA) of 1.92% surpassing last year's proportion of 1.53% and contributing a Return on Equity (ROE) of 11.55% against 9.16% in 2021.

As we ruminate and ponder on our 2022 performance, #WeAreReady to sustain our position of strength and maintain our positive operating leverage with a healthy balance sheet.

197.3M
GROSS INCOME

140.8M
INTEREST INCOME

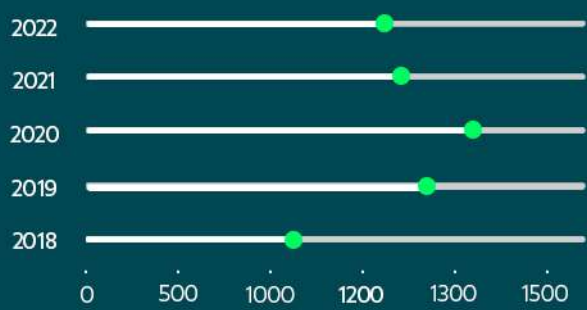
43.6M
NET INTEREST MARGIN

1.92%
RETURN ON AVERAGE ASSET

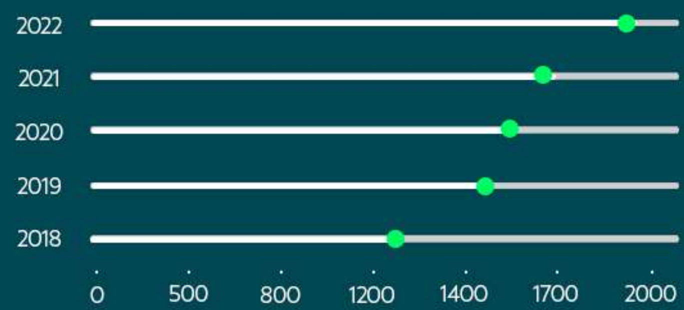
11.55%
RETURN ON EQUITY

22.50%
CAPITAL ADEQUACY RATIO

5- YEAR COMPARATIVE STATISTICS
LOAN PORTFOLIO
(IN MN PHP)



5- YEAR COMPARATIVE STATISTICS
DEPOSIT LIABILITIES
(IN MN PHP)



CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Computation of Qualifying Capital	2022	2021
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	251,930,500.00	251,930,500.00
Retained Earnings	145,979,067.00	111,240,522.00
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	(3,387,885.00)	4,410,085.00
	394,521,682.00	358,760,937.00
Total Tier 1 Capital		
A.2 Tier 2 Capital		
General Loan Loss Provisions	16,618,851.00	16,265,258.00
Total Tier 2 Capital	16,618,851.00	16,265,258.00
Total Qualifying Capital	411,140,533.00	375,026,195.00

Risk Weighted Assets		
Capital Requirements for Credit Risks	1,661,885,074.00	1,626,525,774.00
Capital Requirements for Market Risk	-	-
Capital Requirements for Operational Risks	192,100,679.00	167,553,495.00
Total and Tier 1 Capital Adequacy Ratio on both Solo and Consolidated Basis	22.50%	21.13%

STATEMENT OF
FINANCIAL POSITION

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2022	2021
ASSETS		
Cash and Other Cash Items (Note 6.1)	**₱20,826,548**	₱24,671,873
Due from BSP and Other Banks (Note 6.2)	**341,220,209**	348,662,610
Debt Securities Measured at Amortized Cost (Note 7)	**657,050,275**	370,316,469
Loans & Receivable, Net (Note 8)	**1,205,433,306**	1,227,327,505
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**39,900,974**	46,431,306
Investment Property, Net (Note 10)	**36,280,825**	43,957,856
Right of Use Assets (Note 11)	**55,007,979**	64,239,507
Deferred Tax Asset (Note 24)	**3,387,885**	4,410,085
Other Assets, Net (Note 12)	**6,179,059**	7,090,492
Retirement Benefit Asset (Note 19)	**18,048,870**	22,752,862
TOTAL ASSETS	**₱2,383,335,930**	2,159,860,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	**1,905,284,450**	1,699,820,619
Accrued Interest, Interest, Taxes and Other Expenses (Note 14)	**16,011,783**	10,760,317
Income Tax Payable (Note 24)	**2,068,564**	2,275,075
Other Liabilities (Note 15)	**68,966,737**	83,251,173
TOTAL LIABILITIES	**1,992,331,534**	1,796,107,184
SHAREHOLDERS' EQUITY		
Ordinary Share Capital (Note 16)	**251,930,500**	251,930,500
Retained Earnings - Free (Note 16)	**138,956,872**	104,218,328
Retained Earnings - Reserve for healthcare fund (Note 16)	**7,022,194**	7,022,194
Cumulative Remeasurement Gains (Losses) on Defined Benefit Plans (Note 19)	**(6,905,170)**	582,359
TOTAL SHAREHOLDERS' EQUITY	**391,004,396**	363,753,381
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**₱2,383,335,930**	₱2,159,860,565
BOOK VALUE PER SHARE	**₱155.20**	₱144.39

See accompanying Notes to Financial Statements.

STATEMENT OF
COMPREHENSIVE INCOME

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2022	2021
INTEREST INCOME		
Loans & Receivables	**₱109,736,172**	₱128,214,603
Due from Other Banks	**621,686**	277,953
Debt Securities Measured at Amortized Cost	**30,433,473**	33,461,091
TOTAL INTEREST INCOME	**140,791,331**	161,953,647
INTEREST EXPENSE		
Deposit Liabilities	**8,836,116**	8,796,713
Bills Payable	**121,875**	-
TOTAL INTEREST EXPENSE	**8,957,991**	8,796,713
NET INTEREST INCOME	**131,833,340**	153,156,934
PROVISION FOR CREDIT LOSSES	**205,769**	16,851,157
NET INTEREST INCOME AFTER PROVISION	**131,627,571**	136,305,777
OTHER INCOME (Note 17)	**56,550,542**	33,611,169
TOTAL INCOME BEFORE OPERATING EXPENSES	**188,178,113**	169,916,946
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 18)	**57,758,513**	53,514,798
Other Operating Expenses (Note 20)	**52,570,117**	55,580,976
Depreciation & Amortization (Note 21)	**20,680,065**	19,372,321
Taxes & Licenses (Note 28)	**6,036,466**	6,091,398
TOTAL OTHER OPERATING EXPENSE	**137,045,161**	134,559,493
NET INCOME BEFORE INCOME TAX	**51,132,952**	35,357,453
INCOME TAX EXPENSE (Note 24)	**7,548,216**	3,488,702
TOTAL INCOME FOR THE YEAR	**43,584,736**	31,868,751
Items that will not be reclassified to profit or loss in subsequent period		
Remeasurement gains/(losses) on defined benefit plans	**(7,487,529)**	10,133,765
TOTAL COMPREHENSIVE INCOME	**₱36,097,207**	₱42,002,516
EARNINGS PER SHARE	**₱17.30**	₱12.65

See accompanying Notes to Financial Statements.

STATEMENT OF
CHANGES IN EQUITY

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2022 and 2021

	Share Capital (Note 16)	Retained Earnings - Free (Note 16)	Retained Earnings - Reserve (Note 16)	Cumulative Gains (Losses) on Define Benefit Cost	Total
Balance at January 1, 2022	**₱251,930,500**	**₱104,218,328**	**₱7,022,194**	**₱582,359**	**₱363,753,381**
Total comprehensive income for the year	**-**	**43,584,736**	**-**	**(7,487,529)**	**36,097,207**
Provisions and adjustments	**-**	**(28,624)**	**-**	**-**	**(28,624)**
Declaration of cash dividends	**-**	**(8,817,568)**	**-**	**-**	**(8,817,568)**
Balance at December 31, 2022	**₱251,930,500**	**₱138,956,872**	**₱7,022,194**	**₱(6,905,170)**	**₱391,004,396**
Balance at January 1, 2021	₱251,930,500	₱82,985,834	₱7,022,194	₱(9,551,406)	₱332,387,122
Total comprehensive income for the year	-	31,868,751	-	10,133,765	42,002,516
Provisions and adjustments	-	(5,597,647)	-	-	(5,597,648)
Declaration of cash dividends	-	(5,038,610)	-	-	(5,038,610)
Balance at December 31, 2021	₱251,930,500	₱104,218,328	₱7,022,194	₱582,359	₱363,753,381

See accompanying Notes to Financial Statements.

STATEMENT OF
CASH FLOW

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	**₱51,132,951**	₱35,357,453
Adjustments for:		
Depreciation & amortization (Note 9 and 21)	**20,680,065**	19,372,321
Provision for credit losses	**205,769**	16,851,157
Non-cash item on FFE	**89,949**	(866,581)
Gain on sale of investment properties	**(44,570,571)**	(27,582,032)
Interest income	**(140,791,331)**	(161,953,647)
Interest expense	**8,957,991**	8,796,713
Changes in working capital:		
Loans and other receivables (Note 8)	**21,688,431**	53,545,269
Other assets (Note 12)	**911,432**	(2,006,758)
Deposits liabilities (Note 13)	**205,463,830**	83,848,778
Other liabilities (Note 15)	**(9,077,928)**	8,945,727
Accrued interest and other liabilities (Note 14)	**5,251,466**	1,817,611
Interest received	**140,791,331**	161,953,647
Interest paid	**(8,957,991)**	(8,796,713)
Income taxes paid (Note 24)	**(6,732,526)**	(7,248,203)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**₱245,042,868**	182,034,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment properties (Note 10)	**5,784,757**	(5,187,545)
Additions to bank premises, FFE (Note 9)	**(3,115,877)**	(7,557,499)
Acquisition of debt securities measured at amortized cost (Note 7)	**(286,733,806)**	(141,866,760
Proceeds from sale of investment properties	**44,570,571**	27,582,032
Retirement benefit asset (Note 19)	**(2,783,538)**	365,475
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**(242,277,893)**	(126,664,297)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net charges to surplus/Prior period adjustments	**(28,623)**	(5,597,649)
Payment of cash dividends to stockholders (Note 16)	**(8,817,568)**	(5,038,610)
Payments of lease liabilities	**(5,206,511)**	(5,268,490)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(14,052,702)**	(15,904,749)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,287,727)**	39,465,696
CASH AND CASH EQUIVALENTS, BEGINNING	**373,334,484**	333,868,787
CASH AND CASH EQUIVALENTS, ENDING	**₱362,046,757**	₱373,334,483

See accompanying Notes to Financial Statements

OPERATIONAL **HIGHLIGHTS**

In 2022, we have emerged stronger with clear-cut strategic direction and value delivery. This was made possible through the wisdom of our astute Board and the determination of our management team and employees. As a result, we continue to withstand the waves of change and challenges of the evolving business landscape.

We responded at full tilt when the BSP signaled the tightening of its monetary policy by adopting a periodic review procedure of our loan pricing to counter and address the impact of inflation to the bank. At the same time, we have maximized our liquidity position and took advantage of the high-yield interest rate environment by recalibrating our investment and fund management policies.

Committed to our digital transformation roadmap, we continued to navigate and laid down the groundwork towards digitalization. We went full-swing as a PesoNet ACH Participant in the first quarter of 2022 which allowed our customers to receive and transfer funds from any PesoNet participating banks to their Porac Bank account easily and conveniently. Through the implementation of the PesoNet System, we successfully provided our SSS-member clients a faster and more secure manner of releasing their monthly pensions, benefits and claims and eliminate disbursement through checks. Now more than ever, we are dedicated to pursue innovated ways of banking by leveraging on technology for our product enhancements, operational efficiency and improvement of the overall health of our business.

Our growth trajectory is well imbued in our vital stake of adapting genuine customer-centric and focused-service delivery to our clients. For more than five decades, we were able to establish our rapport and continued patronage, built on malasakit, credibility and trusting relationships with our multi-generational clients. In appreciation of the malasakit that our clients have shown over the years and to strengthen our relationship with our existing client base, we successfully launched the "Malasakit Privilege Card Program". The program was designed to deliver benefits and privileges to eligible bank customers as a way of recognizing and rewarding their continued loyalty and confidence to the bank.

Reflecting on the past year, we also recognize the contributions of our dedicated workforce for being our partners to progress. I remain humbled by our people's untiring efforts that allowed us to sail through the recently concluded BSP Examination in December 2022 - the result of which only proves that, through our collective dedication and persistence, we have already come a long way in our commitment to continuously enhance our risk safeguards, processes and systems towards a safe and sound banking environment for our stakeholders.

CREDIT INITIATIVE

- Successfully conducted comprehensive training for BM, BOO BSA, Appraiser, Credit - from initiation to releasing
- Was able to develop a training module which serves as training materials for new hires
- Successfully applied for renewal of guarantee line with Phil Guarantee - AGFP
- Successfully created a database for AGFP loan accounts including enhancement of other databases reference for easy monitoring
- Successfully amended the Easy Cash Loan policy to cater more eligible M.A clients in availing the said loan product
- Successfully amended the SSS loan policy with regards to the loan term to give clients the opportunity to pay off their loan with longer term and with a lower amortization.

MILESTONES IN DIGITAL TRANSFORMATION

- Upgraded the Wide Area Network connectivity of all branches from MPLS to SD-WAN to reduce WAN cost, improve availability and agility, simplify management, and enable accessibility of branches to the cloud.
- Upgrade the internet access of corporate office to 300Mbps and branches to 50Mbps.
- Provide a static public IP address to all PB branches to enable SD-WAN
- Upgrade corporate firewall to the Sophos XGS 3100.
- Install Sophos XGS 87, a next-generation firewall on all branches.
- Configure SPF and DMARC on poracbank.com domain for a more secure email service.
- Enable automatic failover IPSec connection on PhilPaSSPlus.

#WEAREREADY FOR
SUSTAINABILITY

Porac Bank acknowledges that the impact of climate change and other environmental and social risks can have long-lasting effects on its operations and financial interests, potentially posing risks to financial stability. The bank is aware that climate change-related physical and transition risks can lead to significant societal, economic, and financial risks that affect both the bank and its stakeholders. * Porac Bank also understands the crucial role of the financial industry in promoting sustainable and resilient growth, which involves facilitating environmentally and socially responsible business decisions aligned with the goals outlined in the Philippine Development Plan.

In line with these objectives, Porac Bank has integrated sustainability principles, including those addressing environmental and social risks, into its corporate governance framework, risk management systems, and strategic goals.

RISK APPETITE

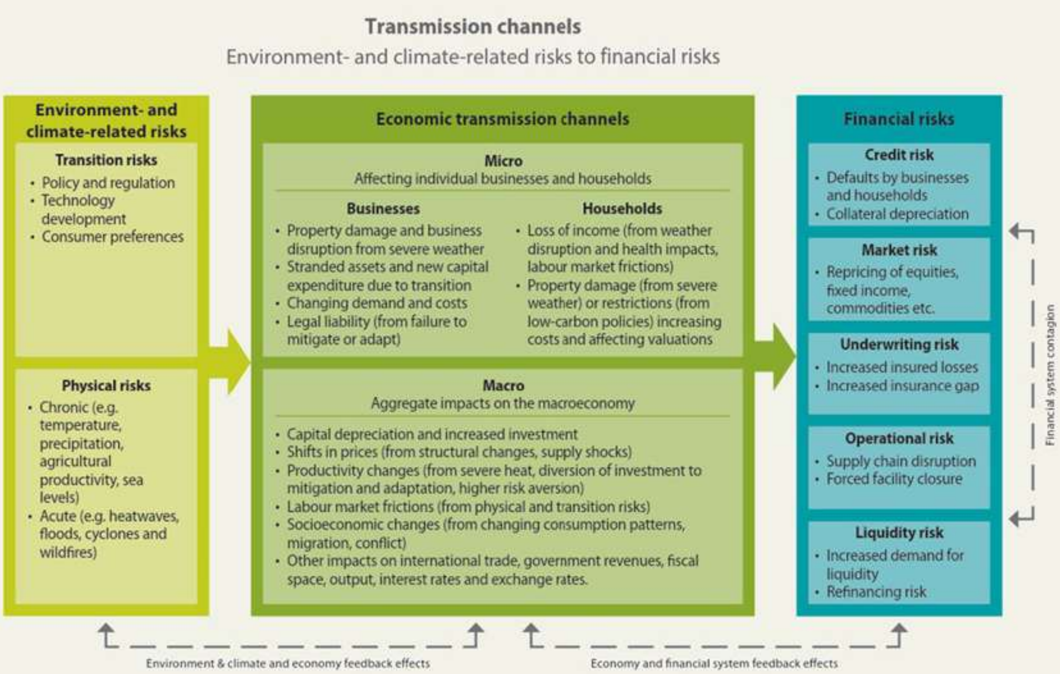
In identifying the Risk Appetite and Strategy of the bank on its E&S Risk, a working Committee, duly approved by the Board, has been established to conduct an environmental and social risk assessment as well as project site assessment to determine the Bank's current exposure with E&S risk associated to its credit, operational and investment activities.

It was identified that the bank's overall and aggregate exposure to E&S Risk is deemed low in terms of sensitivity to environmental & social issues as well as vulnerability to natural hazards climate change. Further, it depicted a zero to none exposure to environmentally critical projects and projects which are likewise deemed to significantly affect the quality of the environment by virtue of being located in Environmentally Critical Areas (ECA).

Given this, the Board gears on maintaining its current direction towards a more sustainable approach in greening the financial system. To fortify our adherence to sustainable finance, the bank adopted the International Finance Corporation exclusion list in defining the type of projects that it will not finance.

We believe that with this commitment, the bank will contribute to sustainable development and growth, bringing its corporate governance to a higher level as it drives for greater Malasakit to the community and the environment.

*IMPACT OF E&S RISK TO THE BANK

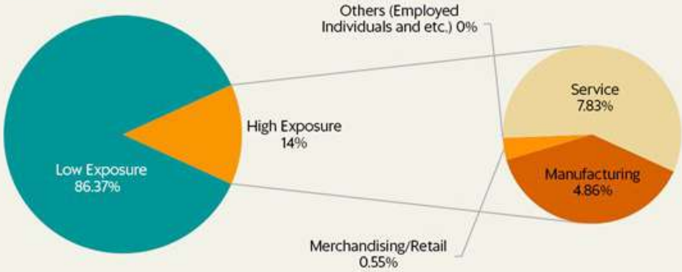


Source: Adapted from NGFS (2020c)

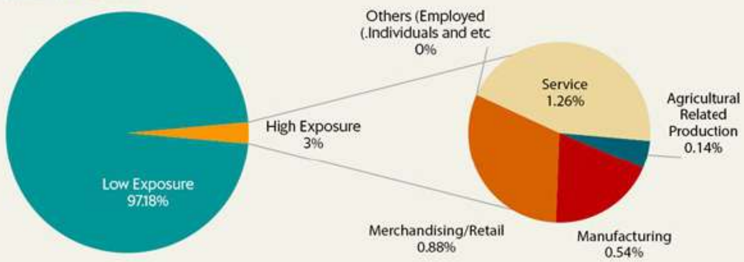
INDUSTRY EXPOSURE TO E&S RISK

The bank identified its E&S exposure per industry using the Project Categorization and Project Site Assessment metrics. Based on the result, the bank has low exposure in terms of project categorization since all project financed are deemed unlikely to cause significant adverse impact on the quality of the environment. In terms of Project site assessment, the bank identified business and collateral exposure of its existing portfolio against vulnerability to natural hazards. The graph .shows the bank's exposure to certain hazard as follows

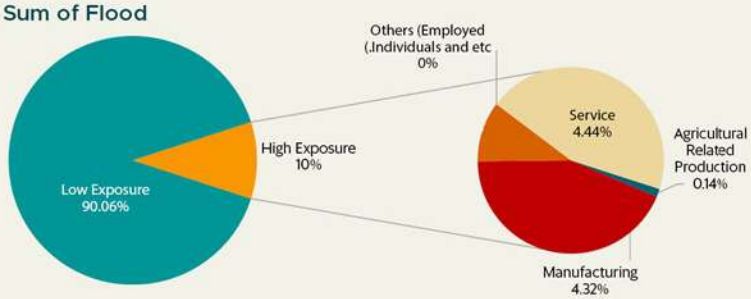
Sum of Liquefaction



Sum of Lahar



Sum of Flood



Industry Classification	%	Project Categorization E&S Risk Exposure
Agricultural Related Production	1.78%	*Low
Manufacturing	13.21%	*Low
Merchandising/Retail	17.11%	*Low
Others (Employed Individuals and etc.)	17.08%	*Low
Service	50.82%	*Low
Total	100.00%	

Based on the Risk Assessment conducted by the bank all projects financed by the bank were either Category C and/Category D

(Category C - Projects or undertakings not falling under Category A or B which are intended to directly enhance the quality of the environment or directly address existing environmental problems)

Category C - Projects or undertakings not falling under Category A or B which are intended to directly enhance the quality of the environment or directly address existing environmental problems

OVERVIEW OF THE E&S RISK MANAGEMENT SYSTEM

In 2023, the Board approved the Environmental and Social Risk Management System which articulates the bank's policies, procedures and tools to identify, assess, monitor and mitigate exposures to E&S risks. The approval of the same aims to support the development and implementation of appropriate measures and approaches in line with the expectations set out under BSP Circular Nos. 1085, 1128 and 1149. In line with this, the ESRMS of Porac Bank, at a minimum, covers the following areas:

- The Role of the Board of Directors and Senior Management in institutionalizing and overseeing the adoption and implementation of sustainability principles, including those covering E&S risk areas, corporate governance and risk management frameworks as well as in the strategic objectives and operations of the bank.
- The level of E&S risk appetite of the bank on E&S risk commensurate with the level of E&S risk associated with the bank's portfolio.
- Clear guidance in assessing E&S risks in the bank's operations, products and services, transaction, activities, and operating environment.
- Tools for monitoring E&S risks as well as the compliance of the bank and its counterparties with sustainability-related standards, laws and regulations and tools for assessing identified E&S risks and for considering the same in the aggregate exposures of the bank.
- Measures that should be taken in case of breaches in limits or thresholds or non-compliance with sustainability-related standards, laws and regulations.
- Integrating the E&S risks in stress testing exercises covering both short-term and long-term horizons following the principles and requirements provided under Sec. 151o f the MORB. The results of the stress testing shall feed into banks' capital and liquidity planning and management exercises as well as in the business continuity and disaster recovery plans.
- The unit or personnel responsible for overseeing the management of E&S risks including the duties and responsibilities of all personnel in managing E&S risks.

Our Commitment to **Sustainability**

Porac Bank's advocates the following strategies towards sustainable banking:

- Inclusion of commitment to environmental and social protection in the way we do banking
- Greening the Internal Operation thru Solar Panel Powered Branches and Head Office
- Advocating Clean energy by financing Solar Panel Installation for clients and employees via Sustainability and Energy Savings Loan
- Greening the Credit Delivery Lending, Operational and Investment activities thru the conduct of Environmental Social Due Diligence
- Transitioning to Digital Transformation
- Promote Human Capital Sustainability
- Partnering and establishing linkages with relevant organizations on Environmental Management to empower the communities we serve
- Publishing an Annual Sustainability Report thru the Bank's Annual Report.

"Incorporating the Sustainable Finance Objective in the Bank's Strategic Plan"

Our Contribution to **UNSDG**

2022 was the year when we reinforced our plans in establishing the blueprint for sustainable banking. With our board-approved Sustainable Finance Framework, we were able to kick-in our sustainability initiatives and made significant strides in this area.

1 We have established a Sustainable Finance Working group that will create the bank's Environmental and Social Risk Management System until 2023. This framework shall govern how we manage environmental and social risks associated with our banking operations.

2 We pioneered the launching of the "Sustainability and Energy Savings (SES) Loan"- an additional loan product intended to finance the cost of Solar PV system installation in the house or commercial establishment owned or occupied by our borrowers. With this, we aim to support economic growth and provide lasting benefit for both our clients and society while reducing pressure to the environment.

3 We have achieved another sustainability milestone and give back to the community when we entered into a tripartite agreement between Porac Bank, ARAW-ACI and KAAPKA to adopt a 1-hectare land and undertake reforestation and watershed protection program in Sapang Bato, Angeles City. Through this initiative, we will not just contribute to the conservation, development and rehabilitation of the Angeles watershed but will also be able to help indigenous Aetas in Barangay Sapang Bato.

Kwentong **Malasakit**

Sustainable Development: Tree Planting Activity

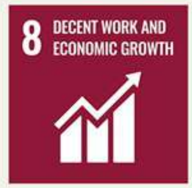
Led by SVP Jowil David, selected Branch Managers, Administrative Officers and Staff, the Bank joined the Angeles Local Government Unit LGU and some sectors from Bases Conversion and Development Authority BCDA in the Tree Planting Activity last 16 June 2022 at Sitio Target, Sapangbato, Angeles City.

Last 03 September 2022, Porac Bank employees braved the rains and responded to the call for sustainable development to make a positive impact on the community. This Annual Tree Planting initiative is the first phase of the Adopt-a-Watershed Program undertaken by the Bank in partnership with ARAW-ACI and KAAPKA.

Gift Giving with KAAPKA

It was another Community Outreach for Porac Bank as we partnered with ARAW-ACI and joined the student volunteers from UP-Clark and UP-Subic to celebrate the "National Indigenous Peoples Month" thru an Outreach Gift-giving Program at Sitio Target, Sapangbato, Angeles City last 29 October 2022.

Empowering **Our People**



At Porac Bank, we are steadfast in our pursuit to fortify and nurture our employees' well-being for their continued growth and success. We amplified employee engagements and organized various events and activities that reinforced employee morale and boost employee performance which are aligned to the bank's mission and vision.

We endeavored to be at pace with the times and kept abreast of developments as we launched our very own HR Mobile App in first quarter of 2022 for its vital stake in Porac Bank's capacity building to go digital and to keep employees attuned to evolving changes in their work spectrum.

In order to uphold and sustain a Culture of Excellence, the HR Department has successfully undertaken its strategic plans and program for Year 2022 in crafting Video Training Modules for Branch positions (Marketing Assistant, Branch Teller, Branch Service Associate, and Branch Operations Officer) in order to effectively acclimate the new hires to their new job assignment and become effective contributors to branch operations.

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ACTIVITIES

2nd Annual General Assembly

To ensure staff involvement within the organization and team collaboration towards the attainment of our shared goals and vision for sustained growth and progress of our beloved Porac Bank, we approached the third month of the year with another successful online gathering when we conducted our 2nd Annual General Assembly. It was a night of engaging presence and enthusiastic attendance of officers and employees.

Employee Booster

The Bank kicked off the year by courageously taking the important step in strengthening the protection of the employees against the emerging variants of deadly coronavirus. As early as January 2022, most of the employees got their booster shots with the help of Porac Bank Management and various branch managers in coordinating the booster vaccination of Porac Bank employees.

Team Building

After more than 2 years of strict Covid restrictions and stringent lockdown measures, Porac Bank finally conducted its Teambuilding Activity last 01 October 2022 at Casa Laguerta, Porac Pampanga. The various sports and employee-engagement activities aimed to build camaraderie, boost solidarity and team spirit sparked cherished moments and happy memories for all the participants.

Padyak Para sa Kalusugan

In line with our mission to foster a holistic atmosphere and provide employees with a healthy work-life balance, we successfuly conducted our first-ever Porac Bank Cycling event last 25 February 2022. No less than our President/CEO Lourdes Connie Tayag, SVP Wilfred Joseph David, Director Marites Limjoco, and Legal Counsel Atty. Cyril Bermudo led the 30 bike enthusiasts who eagerly participated in the "Padyak" fun ride.

Employee Annual Flu Vaccination

The Bank capped off the month of September by boosting the employees' health and protection thru its Annual Flu Vaccination Program which was administered by its very own company physician Board Chairman Dr. Benjamin C. Dizon.

Vintage Christmas Party

It was a night to remember as Porac Bank switched on the retro groove for the festive season of December. Indeed, it was a nostalgic, cool, and fun night as we turned back the clock for the Vintage Christmas Party held last 08 December 2022 at Plaza Victoria Hall, Villa Angelina, Angeles City.

Embracing **Workforce Diversity**

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

In today's ever-evolving world, the banking industry stands at the forefront of progress and change. As we navigate the challenges and opportunities of the modern era, it becomes increasingly evident that a diverse and inclusive workforce is not just a moral imperative but a strategic advantage. With this in mind, we delve into the significance of workforce diversity and gender equality within a bank, highlighting how these values drive innovation, foster better decision-making, and ultimately lead to long-term success.

Promoting gender equality and diversity at Porac Bank goes beyond hiring practices it also involves creating an inclusive workplace culture that values and supports all employees. An inclusive environment fosters a sense of belonging, where employees feel comfortable and empowered to contribute their best. It nurtures the growth and development of talent from all backgrounds and ensures that each individual has equal opportunities for career advancement. By creating a level playing field, the bank can attract and retain top talent, enabling it to remain competitive and thrive in the long run.

We believe that by valuing and nurturing a diverse workforce, the bank can harness a range of perspectives, enhance decision-making, better serve their diverse customer base, and create an inclusive environment that empowers and retains top talent. As we look towards the future, it is imperative for banks to recognize the importance of diversity and equality, not only as a moral obligation but as a catalyst for growth, innovation, and long-term success in the ever-changing financial landscape.

TOTAL POPULATION
163

55%
FEMALE

68%
Supervisory & Managerial (Female)
This includes the Corporate Officers, Branch Managers in Female Population

51%
Rank & File (Female)
This includes the Marketing Assistants, Tellers, BOOs and other corporate positions.

45%
Board of Directors (Female)

45%
MALE

32%
Supervisory & Managerial (Male)
This includes the Corporate Officers, Branch Managers in Male Population

49%
Rank & File (Male)
This includes the Marketing Assistants, Tellers, BOOs and other corporate positions.

55%
Board of Directors (Male)

"Leading the Way: Empowered by a Woman President!"

Sustainable **Initiatives**

1 NO POVERTY

The combined initiatives of our loans to MSMEs, the installation of mobile ATMs in our branches to serve the 4Ps beneficiary , and the offering of our KAYA MO! basic deposit products hold significant potential in the fight against poverty. By empowering MSMEs through accessible financing, enhancing financial access with mobile ATMs, and promoting saving habits through basic deposit products, these initiatives address critical barriers to economic growth and financial inclusion. As more individuals and businesses gain access to financial resources and services, the stage is set for sustainable economic development, job creation, and increased household incomes.

2 ZERO HUNGER

14 LIFE BELOW WATER

Through our Agricultural Loan and partnership with AGFP, we offer accessible financing options tailored to the specific needs of farmers, fisher folks and agribusinesses. These loans provide a pathway to increased agricultural productivity, improved livelihoods, and enhanced food security. It also empowers individuals and communities to contribute effectively to agricultural development, alleviate hunger, and build resilient and sustainable food systems.

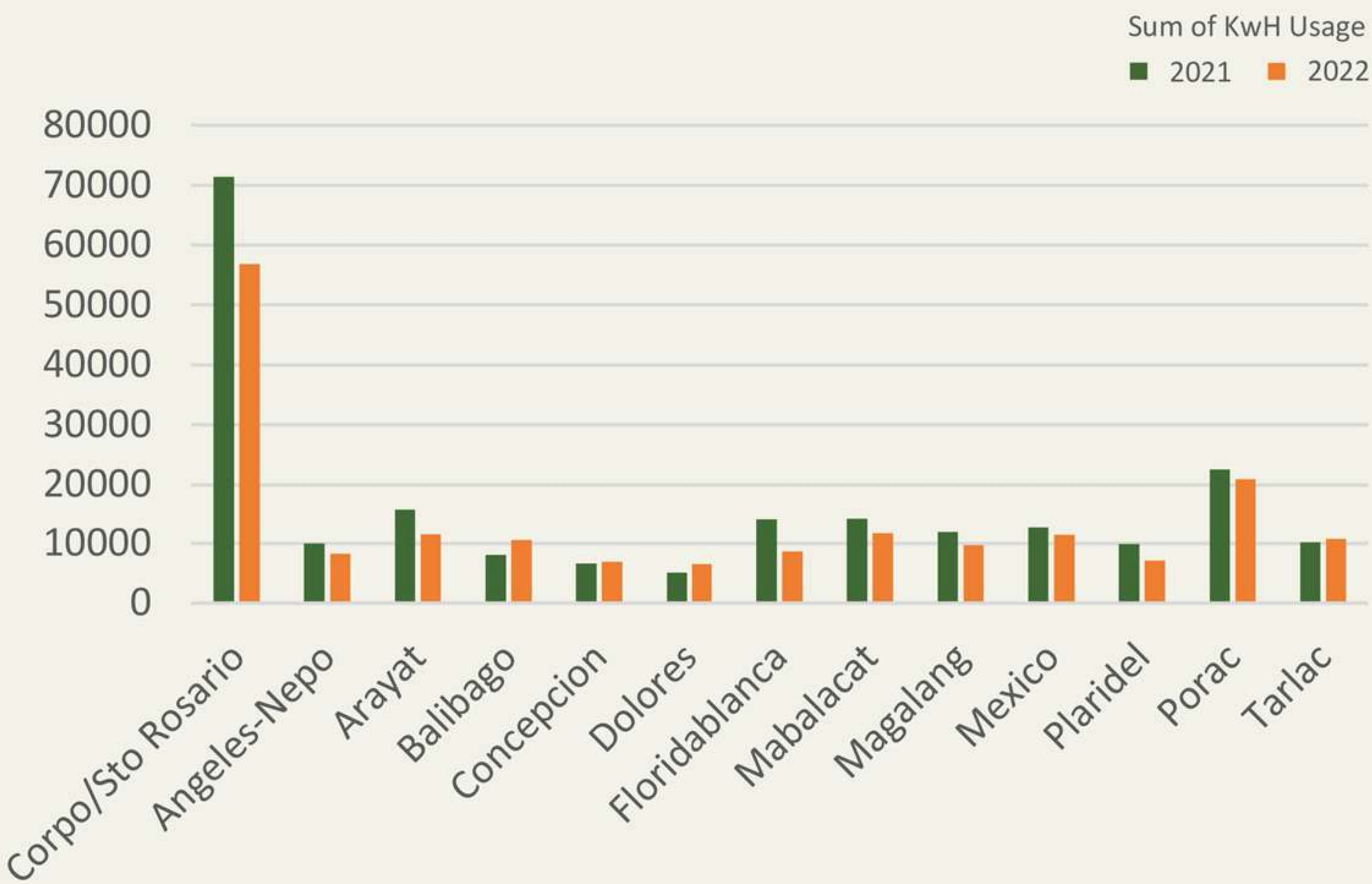
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

With our unwavering commitment to comply with AML and CTF regulations, Porac bank contributes to SDG 16 by combatting illicit financial flows, strengthening legal frameworks, enhancing financial transparency and integrity, and promoting international cooperation and capacity-building. We believe that these efforts support the development of peaceful, just, and strong institutions at national and global levels.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Here at Porac Bank, we believe that the development, implementation and continuous improvement of our Sustainable Finance Framework (SFF) and the integration of the Board-approved ESRMS into our operations and risk management system is a testament of our commitment to climate action. One of our objective is to uphold our commitment to sustainability and simultaneously secure the long-term success of our business. As such, we consistently strive to diminish the impact our business operations have on the environment by effectively monitoring our energy consumption as follows:



Financial **Literacy**

Last December 2022, a financial literacy seminar targeting the tricycle drivers in Arayat, Pampanga was organized and facilitated by our Arayat Branch Manager Mylynn Malinao. This initiative aimed to empower tricycle drivers with the necessary knowledge and skills to improve their financial well-being and make informed financial decisions.

By providing valuable financial education and practical tools, we empowered tricycle drivers to improve their financial well-being and build a brighter future. We remain committed to organizing similar initiatives and expanding our reach to make a lasting positive impact on the lives of individuals within our community. Together, we have taken a significant step towards fostering a financially literate society and creating opportunities for economic growth and prosperity.

"We remain committed to organizing similar initiatives and expanding our reach to make a lasting positive impact on the lives of individuals within our community."

15

hardworking tricycle drivers in Arayat, Pampanga

CONSUMER **PROTECTION**

Porac Bank fully supports the policy of the State to protect the interest of the consumers, promote their welfare, and establish standards of conduct for the banking industry. It is one with the Bangko Sentral ng Pilipinas (BSP) in providing disclosure and transparency, protection of client information, fair treatment, effective recourse as well as financial education and awareness to its consumers.

The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by Porac Bank. Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks. The Senior management on the other hand is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis.

Porac Bank identifies its customer protection risks in each principle by analyzing its effects on the Bank and the customer. The following risk were specifically recognized or identified by the Bank under the different principles or protection standards of consumer protection

The Bank designed an operational channel in handling customer complaints. It has designated its Branch Managers to serve as the Customer Assistance Officers CAOs , and also appointed a Head, Consumer Assistance Officer assigned in the Corporate Office. The Head, Consumer Assistance Officer shall then report to the SVP for Operations and/or the President which will provide action based on the recommendations of the Head of CAOs and/or the SVP Operations.

In 2022, all complaints have been handled and resolved within the standard resolution time in addressing complaints that the bank has set. This is stemmed from our commitment to ensure that the bank's consumer assistance mechanism is effectively in place as we strive to deliver a responsive customer experience.

PRINCIPLES OF CONSUMER PROTECTION

- OVERSIGHT BODIES
- DISCLOSURE AND TRANSPARENCY
- CONFLICT OF INTEREST
- PROTECTION OF CUSTOMER DATA
- FAIR TREATMENT
- REMUNERATION STRUCTURE
- EFFECTIVE RECOURSE
- FINANCIAL EDUCATION AND AWARENESS

CONSUMER ASSISTANCE MANAGEMENT SYSTEM

CUSTOMER CONCERN
COMPLAINT

CHANNELS

PHONE
045 322 9900
045 322 9090
0998 963 4243
0998 881 8294
0921 320 9945

E-MAIL
customerfeedback@poracbank.com

FACEBOOK
Send a private message to our offical page
https//www.facebook.com @poracbank.official

WALK-INS
Porac Bank Branches

LOG A REPORT > EVALUATE INVESTIGATE > FEEDBACK SOLUTION

ANTI-MONEY
LAUNDERING

It is the policy of the bank to protect the integrity and confidentiality of bank accounts and ensure that it shall not be used as a money-laundering site or a conduit for the proceeds of unlawful activity. Porac Bank prohibits and actively prevents money laundering and any activity that facilitates money laundering and or funding of terrorist or criminal activities by promoting high ethical standards and complying with relevant laws, rules, and regulations.

BOARD AND SENIOR MANAGEMENT OVERSIGHT

1

The board of directors shall be responsible for ensuring that the provisions of the MTPP manual and the AMLA and its implementing rules and regulations, as amended, are fully observed.

2

Likewise, the Senior Management shall be responsible for maintaining company activities appropriately aligned with the Board's strategic objective, risk, and corporate values.

3

The senior management shall establish a control and balance management structure to cultivate a culture of accountability and transparency.

BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING

The bank's AMF CFT framework is founded on the following principle

- Comply with the highest ethical standards to sustain a sound banking system
- Protect the bank and its stakeholders against potentially malicious individuals and organizations by obtaining adequate information from each client
- Adopt a sound AML / CFT system to identify, evaluate, monitor and control relevant risks
- Promote faithful compliance by institutionalizing shared responsibilities across every member of the organization with existing laws to combat money laundering and terrorist financing
- Ensure full cooperation with AMLC for the effective implementation and enforcement of the AMLA and its IRR.

AML INITIATIVES FOR 2022

- Amendments to the MTPP Manual to enhance policy on disposition and escalation of possible suspicious transaction, filing of suspicious transaction report and AML sanction guidelines and TFS compliance was approved by the Board
- An independent MLCTPF Committee was established to evaluate and decide filing/escalation of of STRs
- Appointment of the Audit and Compliance Committee as the independent body who shall assist the Board of Directors in fulfilling its oversight responsibility over the Bank's compliance management to the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRRs).

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

The bank's risk management framework encompasses the following theoretical underpinnings

- Risk should be managed on an ongoing basis which connotes a continuous process of identifying, measuring, controlling, and monitoring risks throughout the life of a transaction. This then provides the bank with adequate information and historical basis to establish effective risk mitigants. People remain the bank's greatest and most critical resource to attain success. As such, adherence to the highest ethical standards and best human
- resource practices along with the provision of continuous training to hone the skills of the employees are imperative for the success of the bank.

RISK APPETITE AND STRATEGY

In line with our belief that success and great rewards are only possible with calculative risk-taking, Porac Bank adopts a conservative approach in accepting and managing risk exposures. The bank has well-defined policies, procedures, and limits in place to dictate its risk-taking activities. These limits are presented, monitored to and periodically evaluated by the board and or the appropriate Management Committee.

The bank, pursuant to its risk appetite, established an internal single borrower's limit that is lower than the 25% of bank's capital requirement of the BSP. A limit on large exposure for individual borrower, connected counterparties and its aggregate limit are also in place to effectively manage and monitor risk relative to such.

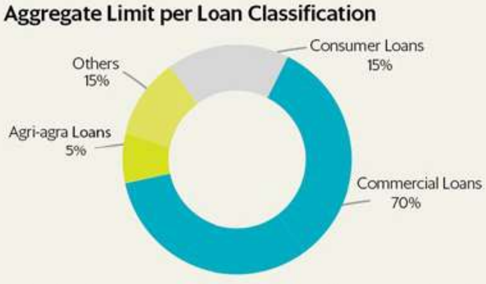
In addition, the bank set up an aggregate limit per loan classification and geographic location to minimize the risk of concentration for loans. Moreover, the materiality threshold and the aggregate limit for credit grants to and sale disposal to or purchase of real estate assets from related parties were set in the same level as DOSRI limits. While the aggregate ceiling for secured loans to DOSRI is 15% of the total loan portfolio, the aggregate limit for loans to related parties is pegged at a more conservative level which only accounts for about 10 thereof.

Also, a maximum aggregate exposure limit for DOSRI and RP is in place subject to periodic monitoring and review. Considering the nature of the transactions classified as "Other RPTs" which are mostly expenditures, the bank has set a conservative materiality threshold reckoned at an aggregate basis per related party per year. Regulatory prudential limits such as the minimum liquidity ratio of 20 and 10 CAR are likewise being observed and monitored periodically.

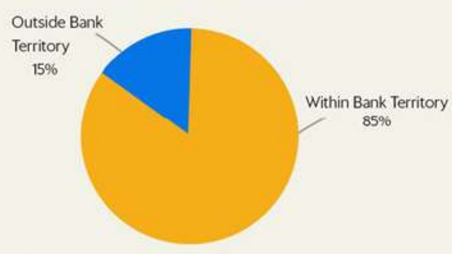
Types of RPT	Materiality Threshold	SUBLIMIT PER GROUP			Maximum Aggregate Exposure for DOS and RPT
		DOSRI	Related Parties	Per family group of each DOS	
Loan and other credit accommodations	P10 Million	Maximum of 15% of loan portfolio of the Bank	Maximum of P100 Million	Maximum of 12.5 Million per family group of each DOS	P250Million
Sale, disposal or purchase or real estate	P10 Million				
Any other RP transaction	P500,000.00 per RP per year				

LIMITS ON LARGE EXPOSURE	
Individual Borrower	P70Million
Connected Counterparties	P75Million
Aggregate Limit	P605Million

Aggregate Limit per Loan Classification



Limits per Geographic Location



RISK AREAS

Porac Bank faces risks inherent in the banking firm primarily in the form of credit, market liquidity, operational, and legal risk. The Bank's risk management framework is oriented towards the efficient management of these risks.

MARKET RISK

Market risk refers to the risk of loss that the Bank may suffer as a consequence of significant events in the financial market such as changes in monetary policies. The bank's current business activities expose it largely to interest rate risk which covers the volatility of the bank's investments particularly in government bonds. The bank monitors such risk through a price gap analysis which is further augmented by periodic stress testing

CREDIT RISK

Credit risk is the risk of failure that may result from the borrower's non-observance or neglect to comply with the terms and conditions of the loan agreed upon. Porac Bank manages this risk through:

- Use of internal credit risk rating system for corporate and consumer lending
- Establishment of limits and strict adherence thereto for the effective management of large exposures, concentration risk as well as exposure to a start-up business, out of the territory, RPT and DOSRI
- Use of credit manual approved by the Board anchored from BSP Circulars and pronouncement for guidance in the credit workflow process for corporate and individual borrowers
- Continuous development of credit policies and underwriting process to ensure compliance with the highest standards of due diligence in lending
- Regular and practical evaluation of the ability of current borrowers to fulfill their financial obligation with the bank throughout the life of such transactions.

FUNDING LIQUIDITY RISK

Funding liquidity risk pertains to the possibility that the Bank may fail to generate the necessary funds to meet its obligations when they become due as well as failure to fulfill large and sudden demands for cash from its depositors without excessive costs. Maturity mismatch between the bank's assets and liabilities exposes the bank to such risk.

To monitor the bank's exposure to liquidity risk, a volume gap analysis is undertaken every month following the Maximum Cumulative Outflow model. To further assess the bank's liquidity position, stress testing is conducted regularly. The bank adheres to a board-approved Contingency Funding Plan to ensure that the bank is ready should a liquidity problem arise.

OPERATIONAL RISK

Poor Board and Management oversight, weak internal control, failed and or inadequate systems, processes, and people give rise to operational risk. Operational risk encompasses fraud, operational glitches, and strategic risk.

The bank adopts an ongoing approach in managing operational risk as follows:

- Regular monitoring and evaluation of processes, people and systems
- Implementation of stringent internal control policies
- Continuous streamlining of business processes
- Implementation of an effective incident reporting mechanism
- Periodic risk assessment of the activities and engagements of the bank particularly those considered critical in the day to day operations of the bank
- Adhering to a board-approved business continuity plan to ensure non-disruption of operations in the face of adversity and
- Continuous training and development of employees to be further augmented by periodic performance evaluation.

OPERATIONAL RISK REPORTING

It is the thrust of Porac Bank to promote the adoption of an effective risk management system that will enable the sustenance of safe and sound banking operations for the bank.

The Operational Risk Manual embodies a comprehensive guideline in identifying, evaluating, measuring, monitoring, and reporting operational risks associated with the activities conducted by each unit of the bank. These guidelines aim to align the bank's risk management practices with international standards and best practices in the industry. The bank implemented a process of regularly monitoring operational risk profiles and material risk exposures to losses continuingly. The process takes into account both qualitative and quantitative assessments of exposure to all types of operational risk.

The process likewise assesses the quality and appropriateness of corrective or mitigating actions and ensures that adequate controls and systems are in place to identify and address problems before they become a major concern.

In effect, branches are required to identify, measure and report risk exposures arising from process policy infringement, operational lapses, and the like every month. These risks are then, through the Executive Committee, regularly reported to the Board of Directors for evaluation or proper disposition.

LEGAL RISK

Legal risk is often caused by poorly documented transactions resulting in an economic or reputational loss due to regulatory or legal problems. It may also lead to inadvertent or intentional non-compliance with laws, rules, regulations, and ethical norms.

Porac Bank manages legal risk through periodic compliance controls, process standardization, contracts, and documentation requirements. Also, outstanding court cases, contracts, and comparable records are kept centralized to allow for easier supervision and reporting of the same to the Board of Directors.

OVERALL GOVERNANCE

The Board of Directors sets the risk appetite of the Bank. Since the dissolution of the Risk Oversight Committee, the Board has assumed direct and bigger participation in evaluating, enhancing, and even formulating risk strategies together with the appropriate Management Committee, as applicable.

REPORTING AND MANAGING RISK

Since the dissolution of the Risk Oversight Committee, the functions of the same were assumed by the Board of Directors which encompasses monitoring and managing of credit, operational, liquidity, interest, legal and reputational risks, among others.

Hence, the Board integrated the following responsibilities in their respective functions:

- Conduct the necessary analyses to allow the same bodies to monitor and manage the Bank's risk profile
- Formulate strategies for managing and controlling risks
- Develop policies consistent with the risk management practices of the Bank
- Review the adequacy of the bank's risk management policies and ensure effective implementation thereof
- Identify, monitor, and evaluate risk exposure and minimize the possible impact thereof on the Bank.

RISK MANAGEMENT STRUCTURE

The bank adopts a three-line defense model in managing risks as follows:

1. Process owners or their business units constitute the bank's first line of defense. The process of identifying, evaluation and monitoring risk is integrated into day to day operations of these units. In addition, business units are responsible for ensuring the effective implementation of policies and procedures. Business units report to the Senior Management any matters deemed significant in managing risk.

2. The second line of defense refers to the compliance unit. This function play a vital role in ensuring the effective implementation of policies and procedures through independent testing systems. The foregoing allows the Bank to capture measure risks in an accurate manner and recommend as needed, enhancements to such policies and procedures necessary for efficiently mitigating risks.

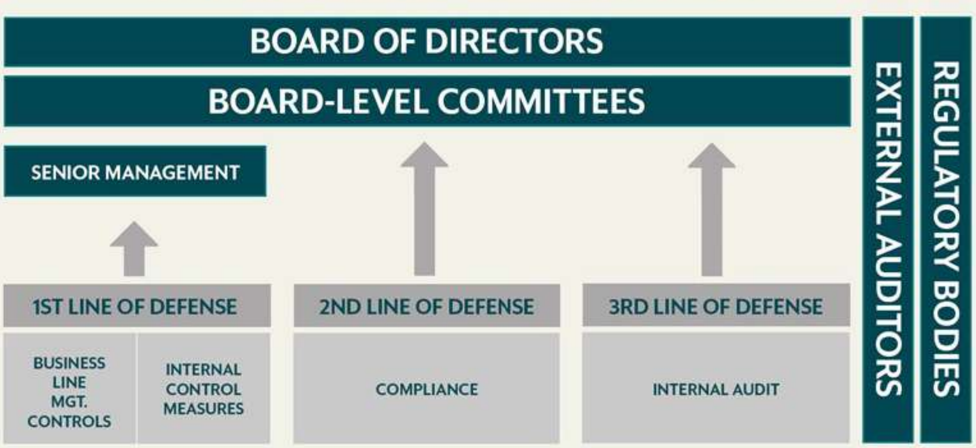
3. The third line of defense refers to the internal audit unit which is established to examine, evaluate and improved effectiveness of internal control, risk management and governance systems and processes of the bank, which helps management and board of directors in protecting the bank and its reputation.

Role of the Board of Directors and or Management Committees. The Board of Directors and or Management Committees are responsible for establishing and regularly reviewing the risk management framework, structures, limit setting and overall oversight of current and potential risks. The Board of Directors approves the bank's risk strategy and aligns the bank's direction to it. The same body plans and dictates the action to be taken to effectively manage risk.

Role of External Auditors. The External Auditors provides for consistency and accuracy in the application of accounting standards, help identify weakness in internal controls, provide an early warning on issues of supervisory concerns and enhances market confidence and improve quality of information relied on by banking supervisor.

Role of Regulators. The Regulators provide guidance on supervisory expectations for sound corporate governance, performs comprehensive evaluation of the bank's overall corporate governance policies and practices and evaluate implementation.

RISK MANAGEMENT STRUCTURE



PORAC BANK

BOARD OF DIRECTORS

	No. of Meetings Attended	Total No. of Meetings	%Rating	% to Voting Total Shares *	Shares Held	
Benjamin D. Dizon	14	14	100%	1.48%	37,333	Direct
Lourdes Connie C. Tayag	14	14	100%	2.39%	60,320	Direct
Wilfred Joseph T. David	14	14	100%	1.55%	39,083	Direct
Alma D. Limjoco	14	14	100%	1.55%	223,743	Direct
Raul B. De Mesa	14	14	100%	0.00%	1	Direct
Anna Claudine T. David	12	14	86%	2.55%	64,171	Direct
Marites C. Limjoco	14	14	100%	2.39%	60,320	Direct
Mary Valerie Joy V. David	14	14	100%	2.39%	60,320	Direct
Mark Primo T. David	14	14	100%	3.35%	84,457	Direct
Charles Vincent D. Sarmiento ***	9	10	90%	1.50%	37,888	Direct
Tristan Leroy David *****	5	5	100%	2.55%	64,287	Direct
Ralph Primo David ****	6	9	67%	2.24%	56,342	Direct
† Eloisa D. Sarmiento **	3	4	75%	-	-	-

*No Indirect Shares, No Major Stockholder who owns more than 20%
** Resigned in March 2022 ***New Member as of April 2022 ****Resigned in July 2022 *****New Member as of August 2022

BENJAMIN C. DIZON,M.D, 45
Filipino | Chairperson

Board Chairperson Benjamin Dizon graduated with a degree in Bachelor of Science in Medical Technology at University of Santo Tomas in 1997 and later earned his degree in Doctor of Medicine in 2001 at University of Santo Tomas. He is currently a Resident Doctor in Ophthalmology at St. Luke's Medical Center, The owner of Dizon Eye and Skin Clinic, he is also a physician at St. Luke's MAB Clinica Henson and appointed as Company Physician of Porac Bank. He has been a member of the board since March 1, 2019.

LOURDES CONNIE C. TAYAG, 50
Filipino | Executive Director

Director President Lourdes Connie Tayag is a graduate of St. Scholastica's College in 1993 with a degree in AB Mass Communication. In 2010, she graduated from Holy Angel University with a degree in BS Nursing and later earned her master's degree in Business Administration from Ateneo Graduate School of Business in 2015. Before she was appointed President, she was the Corporate Secretary of the bank from 2001-2009 and has been elected as a member of the board since 2010. She is presently a Director Treasurer of Sta. Rita College.

WILFRED JOSEPH T. DAVID, 49
Filipino | Executive Director

Director Wilfred Joseph T. David graduated from the University of the Philippines in 1993 with a bachelor's degree in Business Management and later earned a degree in Bachelor of Law at Harvardian Colleges in 2004. He is currently one of the SVP for Operations and has been a Director of the bank since 2014.

MARY VALERIE JOY D. DAVID, 49
Filipino | Non-Executive Director

Director Mary Valerie Joy V. David graduated from St. Scholastica's College in 1994 with a degree in Bachelor of Science in Hotel and Restaurant Management. She is elected as a member of the board since February 9, 2019. Presently, she is the sole proprietor of IZ Fuel Save Gas Station and Value Worth General.

NAPOLEON TEDD D. LIMJOCO , 44
Filipino | Corporate Secretary

Mr. Napoleon Tedd D. Limjoco graduated from the University of Asia and the Pacific in 1999 with a degree of Bachelor of Arts in Humanities major in Business Administration. He earned his Master's Degree in Management. He currently holds the position of Senior Vice President for Operations and concurrently acts as Corporate Secretary. He is likewise the Director Vice President of Gold Fleuret Corporation, Director President of Gold Fleuret Realty and Development Corporation and the Director Vice President of Florida Agribusiness Corporation. He is also a Partner Assistant Manager of Viewmont Homes Subdivision and a sole proprietor of B H Fuel Bar.

ALMA D. LIMJOCO, 72
Filipino | Non-Executive Director

Director Alma D. Limjoco was first seated as a member of theboard of directors of Porac Bank in 1988. She graduated from St. Scholastica's College in 1971 with a bachelor's degree in Commerce. Board Chairperson Limjoco previously served as Branch Manager and President Chairman of Porac Bank. Currently, she is the Director Treasurer of Gold Fleuret Corporation, Gold Fleuret Realty and Development, Florida Agri-Business Corporation, and the President Director of Priser Trading Corporation. She is also the owner of Davlim Property Leasing and a Partner General Manager of Viewmont Homes Subdivision Co.

MARITES C. LIMJOCO, 54
Filipino | Non-Executive Director

Ms. Marites C. Limjoco graduated from St. Scholastica's College with a degree in Business Management. In 2010, she graduated from Dr. Gloria D. Lacson Foundation Colleges with a degree in BS Nursing. Before her appointment as Director, she is also a Stockholder of the bank since 1995. She is currently a Director of Sta. Rita College and owner of the LimCor Trading and Constructions.

MARK PRIMO T. DAVID, 44
Filipino | Non-Executive Director

Director Mark Primo T. David graduated from Angeles University in 2000 with a degree in BS Computer Science. He has been a member of the board since 2010. He was the Admin Supervisor at the Office of City Administrator Angeles City. He currently holds the position of Admin Supervisor at the Office of City Administrator, San Juan City and the owner of Mark Primo David Lessor.

ANNA CLAUDINE T. DAVID, 49
Filipino | Non-Executive Director | Corporate Treasurer

Ms. Anna Claudine T. David has been a member of the board since 2003. She graduated from Assumption College in 1993 with a degree in Bachelor of Science in Comerce major in International Business and earned her master's degree in Business Administration from the University of Western Australia. She currently acts as the Director/Senior Vice President of Factset Philippines, Inc.

RAUL B. DE MESA, 79
Filipino | Independent Director

Director Raul B. De Mesa graduated with a degree in Bachelor of Arts in Business at De La Salle University in 1963. He earned his degree in Strategic Business Economics at the University of Asia and Pacific in 1986. Mr. De Mesa is a distinguished banker with substantial years of experience in the financial industry. Before Porac Bank, he had occupied several positions in Banking institutions such as Banco National De Guinea, Security Bank, Manila Bank, Boston Bank of the Philippines, and Far East Bank and Trust Company. He was the President of Bank of Commerce from 1997 - 2010 and Director of Home Development Mutual Fund Trustee from 2010 - 2017. Concurrently, he is a Director of

- Philippine Regional Investment Development;
- Phil Star Development Bank, Inc.;
- ABACORE Capital Holdings;
- Monte Maria Asia Pilgrims Inc;
- Abacus Global Technovision Inc.;
- Cenertec FMG;
- Cenertec Philippines;
- Cenertec Energy;
- Cenertec PRO;
- Philippine First Condominium Corp.;
- Systems Technology Institute;
- Caplife Insurance Corporation;
- Commerce and Trade Insurance Brokerage Inc.;
- RBM Holdings;
- BIC Management Services Inc.; and
- Pampanga Auto Sales.

He is likewise the Director President of:
- ACE Solid Corporation; and
- Three Eight Holdings Incorporated.

NEWLY ELECTED DIRECTORS

TRISTAN LEROY DAVID, 43
Filipino | Non-Executive Director

Mr. Tristan Leroy A. David is a long-standing stockholder of the Bank who was elected as member of the board since August 1, 2022. Mr. David completed his degree BS Management from Angeles University Foundation in Year 2001. He is the incumbent Chairman of Porac Peaceful Garden Memorial Park Corporation and Roy David Arcade Corporation.

CHARLES VINCENT D. SARMIENTO, 43
Filipino | Non-Executive Director

Mr. Charles Vincent D. Sarmiento, who formerly held the position of VP for HR and Marketing at Porac Bank, joined the board since April 1, 2022. Mr. Sarmiento graduated in 1997 with a Bachelor of Arts degree in Humanities from De La Salle University. He is currently the President of DANSA Supermarket Incorporated, Treasurer of Priser Trading Corporation and Operating Manager of S and L Memorial Chapels.

PORAC BANK

SENIOR MANAGEMENT

LOURDES CONNIE C. TAYAG, 50
Filipino | President

She is the President/CEO of Porac Bank since March 2010. She forms part as Chair of the Executive Committee, Credit Committee and Property Management Committee. She is also the Director and Treasurer of Sta. Rita College. Before she was elected President, she was the bank's Corporate Secretary from 2001 to 2010. She obtained a degree in A.B. Mass Communication at St. Scholastica's College in 1993, a Bachelor's degree in Science of Nursing at the Holy Angel University in 2010 and 2015, a Master's Degree in Business Administration at Ateneo Graduate School of Business.

WILFRED JOSEPH T. DAVID, 49
Filipino | SVP for Operations

He currently holds office at Porac Bank as Director/ SVP for Operations. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. His banking career started in 1992 at Metrobank where he worked as New Accounts until 1993. From 1994-1997 he worked at Far East Bank and Trust Co. as SDD. Before he was appointed SVP for Operations, he held various positons in the bank from 2008 to 2014 including but not limited to Management Trainee, Area Manager and AVP for Operations. He graduated with a degree in Business Management in 1993 at the University of the Philippines. He also obtained a degree in Bachelor of Laws in 2004.

NAPOLEON TEDD D. LIMJOCO, 44
Filipino | SVP for Operations

He currently holds office at Porac Bank as SVP for Operations and Corporate Secretary since 2011 and 2014, respectively. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. Before he was appointed SVP for Operations, he held various positons in the bank from 2007 to 2014 including but not limited to Area Manager and AVP for Operations. He was elected the President of the Pampanga Federation of Rural Banks from 2010-2011. He also worked at Petron Corporation as Market Analyst from 2000 to 2007. He obtained a Bachelor's degree of Arts in Humanities Major in Business Administration in 1999 at the University of Asia and Pacific and a Master's Degree of Science in Management in 2000.

JEREMY M. SUN, 46
Filipino | SVP for I.T

He was appointed the SVP for IT on July 2014. He graduated with a bachelor's degree in Electronics and Communications Engineering at Holy Angel University in year 2000 and has obtained a certificate for CISCO CERTIFIED NETWORK ASSOCIATE from the University of the Philippines in year 2013. He was a former Network Engineer at the University of the Philippines from 2001 to 2008. After which, he became the Consultant Engineer of the same institution from 2008 to 2012. From year 2006 to 2012, he worked at the Philippine General Hospital as Consultant Engineer.

FRANCEL PIA D. PE A, 42
Filipino | VP for Property Management

She was appointed the VP for Property Management in 2014. She graduated in 2002 with a bachelor's degree in Science of Family and Life Development and took post graduate studies and earned her degree Master of Arts in Reading Education at Philippine Normal University.

EMILY L. GUANZON, 52
Filipino | Chief Compliance Officer

She graduated in 1991 with a degree in BSBA major in Accounting at the Holy Angel University and passed the CPA licensure examination in the same year. She currently holds senior management position as Chief Compliance Officer since June 05, 2014. Prior to said appointment, she held various positions in the bank including Cashier/ OIC, Bookkeeper, Internal Auditor.

PORAC BANK
EXECUTIVE OFFICERS

CYNTHIA C. GUTIERREZ, 55
Filipino | AVP for H.R & Admin

She was first hired as the HRD head in 1997 until 2014 from which she was appointed the AVP for HR Admin. She graduated Magna Cum Laude from Angeles University Foundation in 1988 with a degree in Bachelor of Science in Commerce major in Economics. She took post graduate studies of Business Administration in the same school.

ANA TERESA M. BANAWA, 58
Filipino | Internal Auditor

She graduated with a degree in BSBA Major in Accounting at the Holy Angel University in 1985. She became a Certified Public Accountant in Year 1987. She was initially hired by the bank as Assistant Auditor in 2011 until she was appointed the Internal Audit Head on October 05, 2015.

KLEIN L. RODRIGUEZ, 28
Filipino | Chief Accountant

She graduated from Holy Angel University with degree in BS in Accounting Technology in 2015 and a degree in BS Accountancy in 2016 at Our Lady of Fatima University. Ms. Rodriguez passed the licensure examination for Certified Public Accountant on May 2017. She started her career as Compliance Assitant in 2017 after which she was appointed as Chief Accountant in 2021.

RICA MAE S. ORBE, 27
Filipino | Executive Assistant

She was initially hired as Teller for Nepo Branch then after 3 months, she was designated as Treasury Assistant in June 2018. She was promoted as Executive Assistant in July 2022. She graduated from Holy Angel University with the degree BS Accounting Technology

PAUL JOHN P. JARANILLA, 30
Filipino | AVP for Organizational Development

He was appointed as the bank's AVP for Organizational Development in 2021. He was initially hired as Admin Staff Reliever on September 2013 and not long after, was promoted to Organizational Development Manager in 2018. He graduated from Holy Angel University in 2013 with a degree in BS Accounting Technology and obtained a Master's Degree in Business Management in 2016.

LINDSEL A. QUIAZON, 29
Filipino | Loan Officer

She was initially hired as Credit Support Staff in December 2015 and was designated as Credit Analyst in June 2016. Her appointment as Loan Officer was confirmed on July 1, 2022. She graduated from Holy Angel University with the degree BS Accounting Technology in April 2014 and finished her BS Accountancy degree in April 2015.

VERONICA M. ESPAÑOL, 24
Filipino | Credit Operations and Collections Manager

She graduated with a degree in Bachelor of Science in Accounting Technology at Systems Plus College Foundation in 2019. She was initially hired by the bank as Credit Operations Specialits 2019 until she was appointed as the Credit Operations and Collection Manager on March 15, 2021.

ZOREN G. CAPITULO, 29
Filipino | Independent Credit Reviewer

He graduated at Univerity of Assumption in 2015 with a degree in Bachelor of Science in Accountancy and passed the CPA licensure examination on the same year. He was initially hired by the bank in 2017 as a Senior Auditor until he was appointed as the Independent Credit Reviewer on July 01, 2019.

AUDIT AND COMPLIANCE COMMITTEE

FUNCTIONS

Chairperson: Raul B. De Mesa
Members: Mark Primo T. David
Benjamin C. Dizon
Alternate: Anna Claudine T. David

The Audit and Compliance Committee is responsible in reviewing internal control and risk management systems as well as compliance with existing laws, rules and regulations.

ACCOMPLISHMENTS

- The Audit and Compliance Committee has continuously reinforced its function by furnishing Management and the Board with informed perspective and impartial insight on governance framework, risk management practices and internal controls.
- Employed measures in streamlining the credit process to ensure an efficient credit data aggregation.
- Pursued the strategic roadmap of driving growth by focusing on refining the Bank's loan portfolio allocation in view of managing credit risk.
- Reviewed the effectiveness of compliance with laws and directives of regulatory bodies through active liaison with the Audit and Compliance Group.
- Provided guidelines in diversifying existing fund resources to optimize return on investments.
- Actively pursued the resolution of compliance and internal audit issues besides determining that recommendations for improvement are implemented and sustained.
- Furnished assistance to top management on special audits.
- Provided guidance in the application of appropriate disclosures in the bank's annual report.
- Accorded strategic advice to the annual planning and budgeting team by rendering insightful information towards achieving the bank's desired direction.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Raul B. De Mesa	8	8	100%
Mark Primo T. David	8	8	100%
Benjamin C. Dizon	7	8	89%

PROPERTY MANAGEMENT COMMITTEE

FUNCTIONS

Chairperson: Lourdes Connie C. Tayag
Members: Napoleon Tedd D. Limjoco
Wilfred Joseph T. David
Francel Pia D. Pena

The Property Management Committee defines the pricing objective for ROPA and other assets of the bank and sets out plan to dispose the same to support the bank's profitability target.

ACCOMPLISHMENTS

- Approved strategies to facilitate the successful disposal of long-standing ROPA items or those that have been with the bank for more than 5-years.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	2	2	100%
Wilfred Joseph T. David	2	2	100%
Napoleon Tedd D. Limjoco	2	2	100%
Francel Pia D. Pe a	2	2	100%

NOMINATIONS COMMITTEE

FUNCTIONS

Chairperson: Benjamin C. Dizon
Members: Lourdes Connie C. Tayag
Anna Claudine T. David

The nominations committee is responsible for the approval and review of criteria, qualification, selection and continuing education of the Directors, senior management, their successors and other appointments that require board approval.

ACCOMPLISHMENTS

- Evaluated and recommended the suitably qualified candidates to become Directors, successors and executive officers
- Conducted an annual evaluation on the overall effectiveness of the Board of Directors, Management Committees and Senior Management.
- Recommend directors to serve on the committees of the Board

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Benjamin C. Dizon	4	4	100%
Lourdes Connie C. Tayag	4	4	100%
Anna Claudine T. David	4	4	100%

COMPENSATION COMMITTEE

FUNCTIONS

Chairperson: Lourdes Connie C. Tayag
Members: Wilfred Joseph T. David
Ana Claudine T. David

The Compensation committee reviews the remuneration of directors and officers to ensure that compensation is aligned with the Bank's culture, strategy and its business landscape.

ACCOMPLISHMENTS

- Reviewed and approved the proposed amendment(s) enhancement(s) in the Compensation and Benefits Program of the Bank
- Reviewed and approved the proposed amendment(s)/ enhancement(s) in the Incentive, Rewards and Recognition Program of the Bank
- Reviewed and deliberated the granting of salary adjustment of officers and employees.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	1	1	100%
Wilfred Joseph T. David	1	1	100%
Anna Claudine T. David	1	1	100%

EXECUTIVE COMMITTEE

FUNCTIONS

Chairperson: Lourdes Connie C. Tayag
Members: Napoleon Tedd D. Limjoco
Wilfred Joseph T. David

The Executive Committee acts as the highest decision-making body second to the board for matters concerning operations, security, human resources, budgeting and business planning, among others.

ACCOMPLISHMENTS

- Facilitated the implementation of the strategic plans for the year 2022
- Approved and endorsed to the board new and amended policies relative to Investment and Fund Management, Operations, etc.
- Successfully launched the bank as PesoNet ACH participant.
- Reviewed and approved Business Continuity Program for 2022.
- Reviewed and approved several programs for employee engagement and well-being.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	13	13	100%
Napoleon Tedd D. Limjoco	13	13	100%
Wilfred Joseph T. David	13	13	100%

CREDIT COMMITTEE

FUNCTIONS

Chairperson: Lourdes Connie C. Tayag
Members: Napoleon Tedd D. Limjoco
Wilfred Joseph T. David
Francel Pia D. Pena

The Credit Committee reviews, approves and endorses applications, policies and reports relating to the Bank's credit granting function. The Committee ensures that credit transactions with DOSRI as well as Related Party Transactions are conducted at arm's length.

ACCOMPLISHMENTS

- Reviewed and approved loans within the authority of the Credit Committee.
- Reviewed and monitored compliance within Credit Limits.
- Reviewed and approved the expansion of coverage for unsecured agricultural loan.
- Reviewed and endorsed to the Board enhancements in credit policies specifically for cash flow analysis, restructuring and BRR.
- Reviewed and approved process enhancements such as the development of loan monitoring tool and automation of processes forms.
- Reviewed and endorsed to the Board the designed of the Borrower Risk Rating Tool for unsecured agricultural loans and easy cash loans.
- Reviewed and approved the implementation of the Repricing Policy.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	47	52	90.38%
Wilfred Joseph T. David	50	52	96.15%
Napoleon Tedd D. Limjoco	52	52	100%
Francel Pia D. Pe a	49	52	94.23%

CORPORATE
GOVERNANCE

The Board of Directors of Porac Bank recognizes the importance of good corporate governance and corporate social responsibility in promoting and strengthening the trust of its stakeholders and believes that good corporate governance and corporate social responsibility will enhance shareholder value.

To be the Bank of Choice for our Customers, Shareholders, Employees, and Community, the Board will conduct itself in accordance with the highest standard of ethical conduct as well as in accordance with the laws of the land, for the best interests of its stakeholders.

It is the thrust of Porac Bank to align its policies and procedure on Corporate Governance vis-a-vis the issued BSP Circular 1129.

COMPOSITION. The business affairs of Porac Bank are conducted under the supervision and control of eleven 11 directors or board members, including one 1 independent director pursuant to Section 15 and 17 of R.A. No. 8791

SELECTION. For its board selection process, the Board will take into consideration candidates with at least one area of significance e.g. banking, business, marketing, technology, public service, human resources, finance, accounting, law, the management or management consulting ability to contribute to deliberations of the Board ability to exercise sound business judgment ability to think strategically with demonstrated leadership experience, with a high level of professional skill and integrity, as well as other appropriate personal qualities.

The Nominations Committee will propose candidates to be elected as a director in order to replace a vacant position. Proposed candidates are assessed based on the qualification and disqualification criteria of the bank which is anchored from the BSP's fit and proper standards. Newly appointed directors will be provided with appropriate briefings and information relating to the Bank, and be advised of the legal, regulatory, good corporate governance, and other duties of Directors as required by the BSP.

The same is also responsible in the selection and appointment of a senior management including the President CEO and other heads of units as required by the BSP. In selecting Key Officers, the Committee through the recommendation of the HR Department selects key officers based on the succession planning program for senior management and the result of the fit and proper standards which takes into account the qualification criteria as well as integrity, technical expertise, and experience of a candidate for Board approval.

ROLE AND CONTRIBUTION OF THE EXECUTIVE, NON-EXECUTIVE, AND INDEPENDENT DIRECTOR.

Non-executive directors, who shall include independent directors, shall comprise at least a majority of the board of directors whose role is to promote the independent oversight of management by the board of directors. Whilst, the executive director manages the daily activities and ensures that the board's vision is met.

The duties and responsibilities of the Board as stipulated by pertinent laws as well as from certain provisions of the Bank's Articles of Incorporation, By-Laws and resolution of shareholders, include the following

- **a.** directing the policies, strategies, and financial objectives of the Bank and approving policies and operational directions proposed by management as well as overseeing and monitoring management's implementation of those policies, strategies, and financial objectives, with the aim of maximizing economic value and shareholders' wealth.
- **b.** devising structures and procedures designed to ensure compliance with the regulatory requirements and pertinent provisions of the Bank's Articles of Incorporation and By-Laws, adherence to resolutions adopted during board and shareholder's meetings as well as espouse ethical standards in good faith with care.
- **c.** developing structures and procedures to ensure the appropriate system for risk management, internal compliance, audit, and control.
- **d.** developing structures and procedures to ensure a strong and appropriate capital fund for business and risk operations.
- **e.** monitoring and assessment of management performance in the implementation of Board-approved policies and budgets
- **f.** establishing the criteria for, and evaluating, the performance of the Chairman of the Executive Committee, the President, senior members of the management which include, Senior Vice Presidents SVPs , Vice Presidents VPs or other equivalent positions to SVPs, VPs in the different name
- **g.** ensuring that there is timely and accurate preparation and bookkeeping on accounting records and related documents as well as disclosure of appropriate information to shareholders, depositors, and the general, public.
- **h.** reviewing on a regular and continuing basis the succession plan for the position of Chairman of the Executive Committee and the President.
- **i.** observing and ensuring compliance with the Director's Code of Conduct.
- **j.** setting policies pertaining to good corporate governance and corporate social responsibility.

CHAIRMAN'S ROLE. In accordance with Circular 969 issued by the Bangko Sentral ng Pilipinas, the Chairman of the board of Porac Bank shall provide leadership among the members of the directors. He shall ensure effective functioning of the board, including

1. ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns
2. ensure a sound decision making process
3. encourage and promote critical discussion
4. ensure that dissenting views can be expressed and discussed within the decision-making process
5. ensure that members of the board of directors receives accurate, timely, and relevant information
6. ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors and
7. ensure conduct of performance evaluation of the board of directors at least once a year.

CODE OF BUSINESS CONDUCT. Porac Bank Board recognizes their commitment to observe highest ethical standards in all their business dealings and to uphold full compliance with all applicable laws, rules and regulations. In line with this, the Code of Business Conduct aims to lay down the standards that Porac Bank expects of its board in fulfilling their roles and responsibilities as incumbent board members. This Code intends to articulate the acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest and personal gain at the expense of Porac Bank. Through this Code, Porac Bank seeks to develop a Culture of Accountability among its board of directors and to enhance their practice of good corporate governance.

PERFORMANCE ASSESSMENT. In evaluating the performance and effectiveness of the Board as a body, the various committees and the Senior Management link performance to the mission of the Board, the company and the department or office. It promotes improvement in the banking function, recognizes exceptional professional performance, and ultimately achieves a workplace of high performing individuals and groups and brings about continued improvement in the work processes of the company.
The Board of Directors is assigned to facilitate the annual evaluation of the performance and effectiveness of the Board itself as a body, as well as its various committees, its Senior Management and the Bank. A set of questionnaires forms is answered by each member of the Board to evaluate the performance of various committees taking into account different areas of concern and or factors such as the degree of management, effectiveness and overall performance.
The performance assessment conducted by the Board enabled the same to ponder on the different areas of improvement and admirable performance of the Board itself, the Management Committees and the Senior Management. The end result exhibited an overall creditable performance in their mandated functions.
On another note, performance assessment for individual directors is gauged through self-appraisal questionnaires while each committee members are rated by the Nominations committee using the banks performance appraisal tool.

ON-GOING ORIENTATION & EDUCATION. Porac Bank ensures that the on-going orientation and education program for the board, senior management, officers and employees are in place and are laid-out in the annual training program approved by the Board. Prior to appointment of a director, the same shall be able to attend a seminar on corporate governance and must undergo on-boarding orientation. Continuing refresher and education is also given to the board and employees such as the annual AML seminar and other training program deemed fitting and necessary.

RETIREMENT. The Bank has adopted a policy where the retirement age for directors and the senior management and officers are at 80 years old and 65 years old or the compulsory retirement age mandated by law, respectively. However, a deviation from the said policy, limited to postponement of a director's retirement, may be allowed so long as the Board deems it necessary to continually utilize the wisdom and experience of the director for the benefit of the Bank and all of its stakeholders.

Regular directors shall serve a one-year term and until their successors are elected. An independent director of Porac Bank, on the other hand, may only serve as such for a maximum cumulative term of nine (9) years, which shall be reckoned from 2012. After which, the independent director shall be perpetually barred from serving as independent director, but may continue to serve as regular director.

SUCCESSION. The board-approved succession plan for directors and officers contains the following sections:

1. Goals of the Sucession Plan
2. Criteria for Selection of Successor
3. Planning and Review
4. Procedure
5. Assessment of Candidates
6. Emergency Succession
7. Communication Policy

This succession plan shall allow the prospective successor to undergo thorough assessment of his qualification as board member in accordance with BSP Circular No. 969 to ensure fitness and propriety of the candidate prior to appointment or election.

REMUNERATION. The Board of Directors determines the remuneration of the Senior Management based on the annual performance evaluation which they conduct covering various factors for consideration such as management, functional, personal and targets at the same time assessing the decision skills, strategic skills and leadership skills of the said officers.

The four most highly compensated management officers are the President, Senior Vice President, Vice President and Assistant Vice President. The executive directors of Porac Bank are entitled to monthly basic pay, benefits, bonuses and retirement program just like its employees. On the other hand, Non-Executive Directors of Porac Bank receives per diem on every board meetings.

EXPENDITURE MANAGEMENT POLICY. The expenditure management policy has been approved by the board to serve as a guiding framework for the allocation of expenditures of Porac Bank by determining regular finances and restricted expenses in order to ensure financial discipline and operational efficiency amongst the management.

In effect, this policy shall restrict or prohibit excessive luxurious and or other expenses of similar nature that are no longer deemed reasonable for capital outlays staff, office and facility development performance incentives, and other considerations pertinent to business operations.

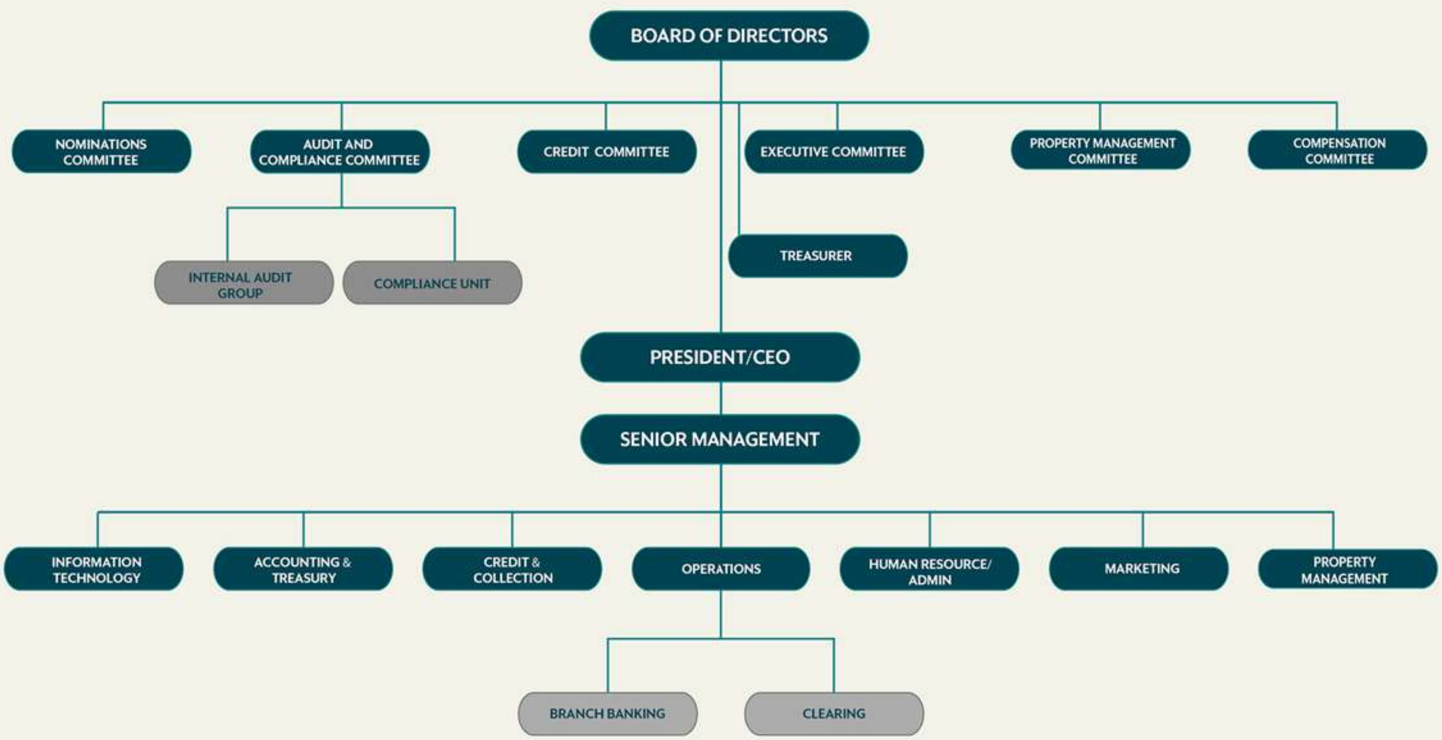
WHISTLE-BLOWING POLICY. Porac Bank is geared towards the attainment and adherence of ethical, moral, and legal conduct in the operation of its business. To assure that these standards are met and maintained, the bank complies with BSP Circular No. 499 or the establishment of effective whistle-blowing procedures by which employees can convey any concerns or suspicions that may arise in the course of performing their jobs to strengthen the Bank's system on detection and prevention of corporate fraud.

The Whistleblowing Policy applies to all ranks, from Porac Bank directors, senior management, Officers Managers, permanent and probationary staffs of the Head Office and its branches.

DIVIDEND POLICY. The procedures in distributing paying dividends entail prior board approval for cash dividends and a majority or at least 2/3 affirmative votes of the stockholders for (1) dividends on record and (2) payment dates based on BSP policies on the declaration of dividends and with the due recommendation from the Senior Management.

The net amount available for dividend declaration is based on the unrestricted retained earnings and undivided profits which shall be based on a sound accounting system and loss provisioning process that considers relevant adjustments to capital including losses, bad debts, and unearned profits or income.

In 2022, the bank declared a cash dividend equivalent to 3.50% of its subscribed capital amounting to 8,817,658.00. The date of record was on December 31, 2021, and the date of distribution was on February 14, 2022.



AUDIT & COMPLIANCE

Porac Bank's corporate compliance and internal audit functions are designed as an integrated process, independent from the business operations they assess to effectively manage its business risks and promote compliance with pertinent banking laws, rules and regulations, policies and standards of good practice and provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operation and reliability of financial reporting.

The Compliance Unit and Internal Audit Group conducts audits from an objective and comprehensive standpoint, independent of operational reporting lines, by assessing the suitability and effectiveness of business activities associated with compliance and risk management and offering advice and remedial recommendations in connection with any problems that may be identified.

The Compliance Unit and Internal Audit Group are directly reporting to the Board of Directors thru the Audit and Compliance Committee. With the Board of Directors' oversight, management has established structures, appropriate authorities and responsibilities and channels to support the regular monitoring and reporting of internal control processes.

On behalf of the Board, the Audit and Compliance Committee oversees the monitoring and review of the internal control system. Since the Committee receives reports from the Compliance Unit and Internal Audit Group on the bank's risk management and internal control systems, it provides the link between the auditors and the Board. The Committee is then well placed to advise the Board on the effectiveness of directives to mitigate risks in the achievement of Porac Bank's objectives.

RELATED PARTY TRANSACTIONS

Porac Bank recognizes the potential for conflicts of interest resulting from transactions with DOSRI and its related parties. To this end, the Management has put in place, an integrated strategy that ensures fair management of transactions with DOSRI and their related parties which are anchored on the latest legislations, laws and regulations related thereto.

This is to safeguard the bank and its stakeholders against the possible conduct of abusive and malicious related party transactions. Through this strategy, the Board of Directors guarantees that related parties are always independent of each other.

The HRD commonly reviews related parties and their personal and business affiliates to ensure accurate and continuous identification of related parties. Deliberation and approval of related party transactions are consistent with present and relevant bank policies.

Related party transactions are monitored on an ongoing basis and are reported to the Board of Directors to ensure that such transactions remain within prescribed limits and are entered into for and in the best interest of the bank. Significant related party transactions recorded in 2020 or those that crossed the materiality threshold set for each type of transaction are summarized in the table below.

As required by the bank's RPT policy, these transactions were confirmed by a majority of the stockholders during the annual stockholder's meeting and were also reported to appropriate governing bodies.

Counterparty	Relationship between parties	Total Credit Transactions	Total Non Credit Transactions	Type of Transactions
Tablante, Pedro Eugenio and Teresita	Related Party	P11,509.538.43	0	Loans and other credit accomodation
PRISER Trading Inc.	Related Interest	0	P8,393,665.23	Others –monthly rental payments for the lease of (a) 4-storey building in Sto. Rosario Street, Angeles City that houses Porac Bank Head/ Corporate Center (b) 2-storey building in Cangatba, Porac that houses Porac Bank Porac Branch and (c) 2-storey building in Plaridel Street, Angeles City for Porac Bank Plaridel Branch amounting to P557,185.13, P97,435.86 and P51,874.85, respectively. The lease contracts shall be for a period of 15 years, 3 years and 20 years which matures on 31-January 2030, 31-December 2024 and 28-February 2031, respectively. All of which are subject to a 10% annual escalation.
B & H Fuel Bar	Related Party	0	P835,603.24	Others-payment for incurred expenses on fuel and gasoline for official business purposes.
Total Exposure		P11,509.538.43	P9,229,268.47	

PRODUCTS

SERVICES

SAVINGS DEPOSIT

Whether you're putting away money for a special purchase, building personal wealth, or saving for an unexpected expense, our low maintenance savings account will help you reach your short and long-term financial goals.

DEMAND DEPOSIT

Whatever your personal or business transaction is, the convenience of a worry-free, cash-less system gives you great flexibility in managing your money.

KAYA MO BASIC DEPOSIT

An interest-bearing Peso account with no maintaining balance and no dormancy charge intended to promote financial inclusion. Its basic functionalities is characterized by ease, accessibility, convenience, and reasonable cost.

TIME DEPOSIT

Enjoy higher interest rates and zero risk on your capital when you place a Time Deposit with us! Whether you prefer a short or long term investment, we have varied term options for you ranging from 30 days to 5 years.

UNSECURED AGRI LOAN

With our No-collateral Agricultural loan, we can help you expand and increase your production and take your Agribusiness to the next level. ideal for Ampalaya, Eggplant, Palay, Corn, Cassava and Sugarcane production.

SECURED AGRI LOAN

We offer farmers easier access to credit that will open opportunities for the set-up, expansion and rehabilitation of their agribusiness as well as open doors to modern agricultural methods and technical advancements.

COMMERCIAL LOAN

This product appeals to MSME's and private corporations for business purposes. Whether you're increasing your inventory, purchasing new equipment, or expanding your business, we will make the process easy for you.

HOUSING LOAN

You're a few steps away from moving in to your dream home. We're here to help you make the best, and find the easiest financing option for you!

OTHER
SERVICES

LOANS AGAINST TIME DEPOSITS

An all-purpose loan to meet your short term funding needs, secured by a hold out on client's Special Savings deposit with Porac Bank.

SSS PENSIONER LOAN

Whatever your personal or business transaction is, the convenience of a worry-free, cash-less system gives you great flexibility in managing your money.

EASY CASH LOAN

Unsecured borrowings of as much as P100, 000.00 for eligible regular Marketing Assistant depositor of Porac Bank.

SUSTAINABILITY AND ENERGY SAVINGS LOAN (SESL)

An additional loan product intended to finance the cost of Solar PV system installation in the house/business owned or occupied by the borrower.

BILLS PAYMENT

Pay your utilities, credit card bills, government dues or even top-up your e-wallet.

PASABAYAD

An additional banking service that allows our clients to enjoy the benefit and convenience of bills payment, fund transfer and pera-padala services through our Marketing Assistants.

ATM POS MACHINES

Withdraw money from your Bancnet ATM cards at our branches in Porac, Magalang, Arayat, Mexico, Dolores, Florida, Mabalacat, Sto. Rosario, Tarlac, and Concepcion.

FUND TRANSFER

Enjoy fast and secure fund transfer to other commercial and local Banks via InstaPay and PesoNet.

INTER-BRANCH FACILITY

Easily deposit and withdraw funds from your Porac Bank account through any of our branches.

DEPOSIT PICK-UP FACILITY

With our personal deposit - collection program, we will bring banking services to your doorstep.

RURAL BANK OF PORAC (PAMPANGA), INC.

Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga

Audited Financial Statements

December 31, 2022 and 2021

RURAL BANK OF PORAC (PAMPANGA), INC.

RECONCILIATION OF AUDITED FINANCIAL STATEMENTS & SUBMITTED CONSOLIDATED STATEMENT OF CONDITION AND STATEMENT OF INCOME AND EXPENSES

As of December 31, 2022

	Submitted Report	Audited Report	Discrepancy	Reason for Discrepancy
Cash and Other Cash Items	₱ 20,826,548	₱ 20,826,548	₱ -	
Due from Bangko Sentral ng Pilipinas	44,270,607	44,270,607	-	
Due from Other Banks	296,949,602	296,949,602	-	
Debt Securities Measured at Amortized Cost, Net	653,473,381	657,050,275	(3,576,894)	*FS presentation, Net of AIR*
Loans and Receivables, Net	1,169,902,987	1,169,902,987	-	
Sales Contract Receivable, Net	29,614,042	29,740,319	(126,277)	*FS presentation, Net of AIR*
Accrued Interest Income	9,737,849	5,790,000	3,947,849	*FS presentation, AIR of Debt Securities, SCR and Time Deposits*
Bank Premises, Furniture, Fixtures, and Equipment, Net	39,900,974	39,900,974	-	
Right of Use Assets	-	55,007,979	(55,007,979)	*FS presentation*
Investment Properties	36,280,825	36,280,825	-	
Deferred Tax Asset	11,185,819	3,387,885	7,797,934	*See AJE# 3,4 and 5, FS presentation, Net of DTL*
Other Assets, Net	83,695,221	6,179,059	77,516,162	*FS presentation, net of AIR, ACL, ROUA, Retirement Benefit Asset, Other Misc. Asset & AJE#8*
Retirement Benefits Assets	-	18,048,870	(18,048,870)	*FS presentation & AJE#8*
Total Assets	**2,395,837,855**	**₱2,383,335,930**	**₱12,501,925**	***Net effect of adjustments***
Deposit Liabilities	1,905,284,450	1,905,284,450	-	
Finance Lease Payments	2,494,287	-	2,494,287	*FS presentation reported in Accrued Interest, Taxes & Other Expenses*
Special Time Deposit	19,976	-	19,976	*FS presentation reported in Other Liabilities*
Due to Treasury of the Philippines	273,953	-	273,953	*FS presentation reported in Other Liabilities*
Accrued Interest, Taxes & Other Expenses	-	16,011,783	(16,011,783)	*See AJE#2, FS presentation of Accrued Interest Payable & Accrued Other Expense Payable*
Income Tax Payable	-	2,068,564	(2,068,564)	*See AJE#1 and 2*
Accrued Expenses	15,446,034	-	15,446,034	*FS presentation of Accrued Interest Payable & Accrued Other Expense Payable*
Deferred tax liability	6,775,735	-	6,775,735	*See AJE#6, FS presentation*
Other Liabilities	68,672,808	68,966,737	(293,929)	*FS presentation included the Special Guarantee Fund and Due to Treasury of the Philippines*
Total Liabilities	1,998,967,243	1,992,331,534	6,635,709	***Net effect of adjustments***
Capital Stock	251,930,500	251,930,500	-	
Retained Earnings	144,357,753	145,979,066	1,621,313	*Net effect of net income and AJE#8*
Cumulative remeasurement gains (losses)	582,359	(6,905,170)	(7,487,529)	*See AJE#8*
Total Shareholders' Equity	396,870,612	391,004,396	5,866,216	*Net effect of adjustments*
Total Liabilities & Shareholders' Equity	**₱2,395,837,855**	**2,383,335,930**	**12,501,925**	***Net effect of adjustments***
Total Gross Income	196,649,957	₱197,341,873	(691,916)	*See AJE#7*
Total Expenses	148,844,096	146,208,921	2,635,175	*See AJE#8*
Net Income Before Tax	47,805,861	₱51,132,952	(3,327,091)	***Net effect of adjustments***
Income Tax Expense	5,694,074	7,548,216	(1,854,142)	*Net effect of adjustments*
Net Income After Tax	**₱ 42,111,787**	**₱43,584,736**	**₱(1,472,949)**	***Net effect of adjustments***

RURAL BANK OF PORAC (PAMPANGA), INC.
FINANCIAL HIGHLIGHTS
As of December 31, 2022 and 2021

	2022	2021	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	**₱197,341,873**	₱195,564,816	₱ 1,777,057
TOTAL EXPENSES	**153,757,137**	163,696,065	(9,938,928)
NET INCOME	**43,584,736**	31,868,751	11,715,985
EARNINGS PER SHARE Ordinary Shares	**17.30**	12.65	4.65
RETURN ON AVERAGE EQUITY	**11.55%**	9.16%	2.39%
RETURN ON AVERAGE ASSETS	**1.92%**	1.53%	0.39%
NET INTEREST MARGIN	**6.35%**	8.09%	(1.74%)
AT YEAR END			
TOTAL ASSETS	**2,383,335,930**	2,159,860,565	223,475,365
LOANS AND RECEIVABLES (NET)	**1,205,433,306**	1,227,327,505	(21,894,199)
LIQUID ASSETS	**1,019,097,032**	743,650,952	275,446,080
FIXED ASSETS	**39,900,974**	46,431,306	(6,530,332)
DEPOSIT LIABILITIES & DUE TO BSP	**1,905,284,450**	1,699,820,619	205,463,831
OTHER LIABILITIES	**68,966,737**	83,251,173	(14,284,436)
EQUITY ACCOUNTS	**391,004,397**	363,753,381	27,251,016
BOOK VALUE PER SHARE Ordinary Shares	**155.20**	144.39	10.81
CAPITAL ADEQUACY RATIO	**22.50%**	21.13%	1.37%
PAST DUE RATIO	**8.15%**	13.04%	(4.89%)
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & DUE TO BSP	**53.49%**	43.75%	9.74%
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES OTHER LIABILITIES	**51.62%**	41.71%	9.91%
DEBT TO EQUITY RATIO	**5.10:1**	4.94:1	0.16:1
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	**10.20%**	12.76%	(2.56%)

(See accompanying Notes to Financial Statements)

RURAL BANK OF PORAC (PAMPANGA), INC.
LIST OF ADJUSTING ENTRIES
DECEMBER 31, 2022

No.	Particulars	Debit	Credit
	Proposed Adjusting Journal Entry (PAJE)		
1.	Income Tax Expense	831,941.54	
	Income Tax Payable		140,025.14
	Prepaid Income Tax		691,916.40
	To adjust Income Tax Expense and Liability for the year.		
2.	Accrued Expenses Payable	1,928,538.54	
	Income Tax Payable		1,928,538.54
	To properly classify accounts per FRP accounts.		
3.	Income Tax Benefits	67,388.08	
	Deferred Tax Assets		67,388.08
	To close DTA on accounts written-off		
4.	Deferred Tax Assets	51,442.25	
	Income Tax Benefits		51,442.25
	To record DTA on provision for credit losses		
5.	Deferred Tax Assets	1,301,627.75	
	Income Tax Expense		1,301,627.75
	To record DTA on lease liability.		
6.	Income Tax Expense	2,307,882.07	
	Deferred Tax Liability		2,307,882.07
	To record DTL on RUA		
7.	Prepaid Income Tax	691,916.40	
	Other Income		691,916.40
	To record creditable taxes derived from sale of property.		
8.	Cumulative remeasurement gain on retirement benefit plans	7,487,529.00	
	Retirement Benefit Asset		4,703,992.00
	Retirement Expense		2,635,175.00
	Retained earnings		148,362.00
	To adjust retirement asset based on PAS 19R for the year 2022.		

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2022	2021
ASSETS		
Cash and Other Cash Items (Note 6.1)	**₱20,826,548**	₱24,671,873
Due from BSP and Other Banks (Note 6.2)	**341,220,209**	348,662,610
Debt Securities Measured at Amortized Cost (Note 7)	**657,050,275**	370,316,469
Loans & Receivable, Net (Note 8)	**1,205,433,306**	1,227,327,505
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**39,900,974**	46,431,306
Investment Property, Net (Note 10)	**36,280,825**	43,957,856
Right of Use Assets (Note 11)	**55,007,979**	64,239,507
Deferred Tax Asset (Note 24)	**3,387,885**	4,410,085
Other Assets, Net (Note 12)	**6,179,059**	7,090,492
Retirement Benefit Asset (Note 19)	**18,048,870**	22,752,862
TOTAL ASSETS	**₱2,383,335,930**	2,159,860,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	**1,905,284,450**	1,699,820,619
Accrued Interest, Interest, Taxes and Other Expenses (Note 14)	**16,011,783**	10,760,317
Income Tax Payable (Note 24)	**2,068,564**	2,275,075
Other Liabilities (Note 15)	**68,966,737**	83,251,173
TOTAL LIABILITIES	**1,992,331,534**	1,796,107,184
SHAREHOLDERS' EQUITY		
Ordinary Share Capital (Note 16)	**251,930,500**	251,930,500
Retained Earnings - Free (Note 16)	**138,956,872**	104,218,328
Retained Earnings - Reserve for healthcare fund (Note 16)	**7,022,194**	7,022,194
Cumulative Remeasurement Gains (Losses) on Defined Benefit Plans (Note 19)	**(6,905,170)**	582,359
TOTAL SHAREHOLDERS' EQUITY	**391,004,396**	363,753,381
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**₱2,383,335,930**	₱2,159,860,565
BOOK VALUE PER SHARE	**₱155.20**	₱144.39

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC.

STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2022	2021
INTEREST INCOME		
Loans & Receivables	**₱109,736,172**	₱128,214,603
Due from Other Banks	**621,686**	277,953
Debt Securities Measured at Amortized Cost	**30,433,473**	33,461,091
TOTAL INTEREST INCOME	**140,791,331**	161,953,647
INTEREST EXPENSE		
Deposit Liabilities	**8,836,116**	8,796,713
Bills Payable	**121,875**	-
TOTAL INTEREST EXPENSE	**8,957,991**	8,796,713
NET INTEREST INCOME	**131,833,340**	153,156,934
PROVISION FOR CREDIT LOSSES	**205,769**	16,851,157
NET INTEREST INCOME AFTER PROVISION	**131,627,571**	136,305,777
OTHER INCOME (Note 17)	**56,550,542**	33,611,169
TOTAL INCOME BEFORE OPERATING EXPENSES	**188,178,113**	169,916,946
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 18)	**57,758,513**	53,514,798
Other Operating Expenses (Note 20)	**52,570,117**	55,580,976
Depreciation & Amortization (Note 21)	**20,680,065**	19,372,321
Taxes & Licenses (Note 28)	**6,036,466**	6,091,398
TOTAL OTHER OPERATING EXPENSE	**137,045,161**	134,559,493
NET INCOME BEFORE INCOME TAX	**51,132,952**	35,357,453
INCOME TAX EXPENSE (Note 24)	**7,548,216**	3,488,702
TOTAL INCOME FOR THE YEAR	**43,584,736**	31,868,751
Items that will not be reclassified to profit or loss in subsequent period		
Remeasurement gains/(losses) on defined benefit plans	**(7,487,529)**	10,133,765
TOTAL COMPREHENSIVE INCOME	**₱36,097,207**	₱42,002,516
EARNINGS PER SHARE	**₱17.30**	₱12.65

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2022 and 2021

	Share Capital (Note 16)	Retained Earnings - Free (Note 16)	Retained Earnings - Reserve (Note 16)	Cumulative Gains (Losses) on Define Benefit Cost	Total
Balance at January 1, 2022	**₱251,930,500**	**₱104,218,328**	**₱7,022,194**	**₱582,359**	**₱363,753,381**
Total comprehensive income for the year	**-**	**43,584,736**	**-**	**(7,487,529)**	**36,097,207**
Provisions and adjustments	**-**	**(28,624)**	**-**	**-**	**(28,624)**
Declaration of cash dividends	**-**	**(8,817,568)**	**-**	**-**	**(8,817,568)**
Balance at December 31, 2022	**₱251,930,500**	**₱138,956,872**	**₱7,022,194**	**₱(6,905,170)**	**₱391,004,396**
Balance at January 1, 2021	₱251,930,500	₱82,985,834	₱7,022,194	₱(9,551,406)	₱332,387,122
Total comprehensive income for the year	-	31,868,751	-	10,133,765	42,002,516
Provisions and adjustments	-	(5,597,647)	-	-	(5,597,648)
Declaration of cash dividends	-	(5,038,610)	-	-	(5,038,610)
Balance at December 31, 2021	₱251,930,500	₱104,218,328	₱7,022,194	₱582,359	₱363,753,381

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	**₱51,132,951**	₱35,357,453
Adjustments for:		
Depreciation & amortization (Note 9 and 21)	**20,680,065**	19,372,321
Provision for credit losses	**205,769**	16,851,157
Non-cash item on FFE	**89,949**	(866,581)
Gain on sale of investment properties	**(44,570,571)**	(27,582,032)
Interest income	**(140,791,331)**	(161,953,647)
Interest expense	**8,957,991**	8,796,713
Changes in working capital:		
Loans and other receivables (Note 8)	**21,688,431**	53,545,269
Other assets (Note 12)	**911,432**	(2,006,758)
Deposits liabilities (Note 13)	**205,463,830**	83,848,778
Other liabilities (Note 15)	**(9,077,928)**	8,945,727
Accrued interest and other liabilities (Note 14)	**5,251,466**	1,817,611
Interest received	**140,791,331**	161,953,647
Interest paid	**(8,957,991)**	(8,796,713)
Income taxes paid (Note 24)	**(6,732,526)**	(7,248,203)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**₱245,042,868**	182,034,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment properties (Note 10)	**5,784,757**	(5,187,545)
Additions to bank premises, FFE (Note 9)	**(3,115,877)**	(7,557,499)
Acquisition of debt securities measured at amortized cost (Note 7)	**(286,733,806)**	(141,866,760
Proceeds from sale of investment properties	**44,570,571**	27,582,032
Retirement benefit asset (Note 19)	**(2,783,538)**	365,475
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**(242,277,893)**	(126,664,297)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net charges to surplus/Prior period adjustments	**(28,623)**	(5,597,649)
Payment of cash dividends to stockholders (Note 16)	**(8,817,568)**	(5,038,610)
Payments of lease liabilities	**(5,206,511)**	(5,268,490)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(14,052,702)**	(15,904,749)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,287,727)**	39,465,696
CASH AND CASH EQUIVALENTS, BEGINNING	**373,334,484**	333,868,787
CASH AND CASH EQUIVALENTS, ENDING	**₱362,046,757**	₱373,334,483

See accompanying Notes to Financial Statements

1. CORPORATE INFORMATION

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK") was incorporated on November 12, 1968 to engage in business of rural banking. Consequently on December 11, 1968, it was granted authority by the Monetary Board to operate as a rural bank.

The registered principal office of the Bank is located at Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga. It has twelve (12) branches located in the following areas:

1. Gen. Luna St., Cangatba, Porac, Pampanga
2. San Pedro I, Magalang, Pampanga
3. Rizal Avenue Extension, Angeles City
4. Plaza Luma, Arayat, Pampanga
5. San Antonio, Mexico, Pampanga
6. Emerald Business Center, McArthur Highway, Dolores, City of San Fernando, Pampanga
7. Lot 1 Block 2 Casmor Phase II, Mabiga, Mabalacat, Pampanga
8. Sta. Maria Cor. Rizal St., Poblacion, Floridablanca, Pampanga
9. Lot 2, Bayanihan Park, M.A. Roxas St., Malabanias, Angeles City
10. Plaridel St., Sto. Rosario, Angeles City
11. Benj-Arl Building, N. Dela Patria, L. Cortez St., Concepcion, Tarlac Pampanga
12. RHC Building, Hilario Cor. M.H. Del Pilar St. Ligtasan, Tarlac City

The Bank's Board of Directors are composed of eleven (11) members; One (1) of them is an independent director.

Approval of Financial Statements
The accompanying financial statements of the Bank for the year ended December 31, 2022 were authorized for issue by its Board of Directors on March 30, 2023.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The significant accounting policies applied in the preparation of these financial statements are set out separately below or explained in the respective notes to these financial statements. These policies have been consistently applied to the periods presented, unless otherwise stated.

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivate financial instruments, if any, that have been measured at fair value. The financial statements are presented in Philippine peso ("₱") and all values are rounded to the nearest peso except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Statement of Compliance
The Bank's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and relative laws, regulations and industry practices applicable to rural banks. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretations of the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) which have been approved and adopted by the Financial Reporting Standards Council (FRSC). and adopted by the SEC.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial years, except that the Bank has adopted the following new accounting pronouncements beginning January 1, 2022. Adoption of these pronouncements did not have significant impact on the Bank's financial position or performance unless otherwise stated

New Standards, Amendments, and Interpretations Adopted

<u>Amendments</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS:

- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021. The Bank did not apply the practical expedient in its financial statements for the year ended December 31, 2022.

Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021 but earlier application is permitted. The 2021 amendment is mandatory for entities that elected to apply the previous amendment. Accordingly, the Bank has applied the amendment in the current year financial statements.

The adoption of the amended PFRS did not materially affect the financial statements of the Bank.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applied the amendments.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Subsidiary as a First-time Adopter* – The amendment permits a subsidiary that becomes a first-time adopter later than its parent and measures its assets and liabilities in accordance with paragraph D16 (a) of PFRS 1 to measure cumulative translation differences for all foreign operations using the amounts reported by its parent, based on the parent's date of transition to PFRS. Earlier application of the amendment is permitted.
  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is 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 the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendments. Earlier application is permitted.

  - Amendment to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.
  - Amendment to PAS 41, *Agriculture - Taxation in Fair Value Measurements* – The amendment removes the requirement for entities to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique to ensure consistency with the

requirements in PFRS 13, Fair Value Measurement. The amendment should be applied prospectively. Earlier application is permitted.

New and Amended PFRS Issued But Not Yet Effective
Relevant new and amended PFRS, which are not yet effective as at December 31, 2022 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify

  (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition,
  PFRS Practice Statement 2, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy require an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, Insurance Contracts. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

In response to the challenges brought by the COVID-19 pandemic, the Insurance Commission issued Circular Letter 2020-062, *Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation*, which provides a two-year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Financial Instruments

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial Recognition and Subsequent Measurement
Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after recognition, an expected credit allowance (ECL) is recognized for financial assets measured at amortized cost.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that used only data from observable markets, difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

Classification and Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is de-recognized, modified or impaired.

The Bank's investments are under this category.

Impairment of Financial Assets

The bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivable and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The bank considers a financial asset in default when contractual payments or when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others:
(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) it is probable that the borrower will enter bankruptcy or other financial reorganization;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or,
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

Considering that the Bank is regulated by the Bangko Sentral ng Pilipinas (BSP) which requires a distinct provisioning as well as default provision pursuant to Circular 855, 941 and 1011, then in case of conflict between the standard (PFRS) and special law (which is enacted by BSP such as MORB), then the latter will prevail.

The Bank recognizes impairment loss based on the category of financial assets as follows:

Carried at Amortized Cost – Loans and Receivables and Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)

For assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable or debt securities carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan or debt securities has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible subject to BSP guidelines, it may be written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD and the BSP, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other Income in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

Derecognition of Financial Assets

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower or of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

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

Subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of the financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent period, the Bank recognizes any expense incurred on the financial liability, when continuing involvement approach applies.

Derecognition

A financial liability is derecognized when the obligation under the liability has expired, or is discharged or has cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

<u>Offsetting of Financial Instruments</u>

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amount in the balance sheet.

<u>Financial Assets</u>

This category includes cash and cash equivalents, loans receivable, investments and portion of other assets pertaining to rental deposits.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

Cash on Hand

Cash on hand represents the total amount of cash in the bank's vault in the form of notes and coins under the custody of the cashier/cash custodian. This is measured at face value.

Due from Bangko Sentral ng Pilipinas

This represents the balance of the deposit account in local currency maintained with the Bangko Sentral to meet reserve requirement subject to existing rules and regulations. This is measured at face value.

Due from Other Banks

This represents the balance of the deposit accounts maintained with other resident banks. These are stated in the Statement of Financial Position at their face value. Income on interest bearing deposits are credited to and included in the determination of income in the Statement of Comprehensive Income.

Loans and Receivables

Loans and receivable account include loans extended to clients classified as small and medium enterprise loan, real estate loans, other loans, micro finance loans, and agrarian reform and other agricultural loans. Loans and receivables are recognized when cash is advanced to borrowers. These are recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized costs using effective interest method less provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as "Interest Income" in the Statement of Comprehensive Income. The losses arising from impairment are recognized in profit or loss.

Restructured Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment period and the arrangement of new loan terms and conditions. Once the terms renegotiated have been finalized, the loan is classified as restructured loan. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loan is continuously subject to an individual or collective impairment assessment calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in "Provision for Impairment and Credit Losses" in the Statement of Income & Expenses.

Loans & Discounts
Receivables from customers are stated at the outstanding balance reduced by an allowance for probable loan losses.

Interest income on non-discounted term loan is accrued monthly as earned, except in the case of non-accruing loans.

Unearned discounts are recognized as income over the period for which such discount has been collected using the effective interest method. In accordance with the existing BSP regulations no interest income is accrued on accounts classified as past due.

Under existing BSP regulations, non-accruing loans are those that have been defined as being past due and items in litigations, or those for which, in the opinion of management, collection of interest or principal is doubtful. Interest income on these loans is recognized only to the extent of amount collected. Loans are not classified as accruing until interest and/or principal due are collected and the loans are brought to current or are restructured in accordance with existing BSP regulations and future payments appear assured. Collaterals of restructured loans exceeding ₱ 1 million shall be revalued by an independent appraiser acceptable to BSP.

Sec. 304 of the Manual of Regulations for Banks (MORB) states that past due accounts of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at contractual due date.

Sec. 304 states that loans, investments, receivables or any financial asset shall be considered non performing even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, 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 interest for more than 90 days have been capitalized, refinanced or delayed by agreement. Restructured loans shall be considered performing only, if prior to restructuring, the loans were categorized as performing. Non-performing loans and other receivables 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.

The allowance for credit losses is the estimated amount of losses in the Bank's portfolio, based on evaluation of the quality of loans and prior loan loss experience (Appendix 15 of the MORB). Any amount set aside with respect to losses on loans and advances in addition to those losses that have been specifically identified or potential losses are indicatively present in the portfolio of loans and advances, are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period. The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

The outstanding balance as of December 31, 2022 was tested for impairment. The result of the test is favorable since the allowance for probable losses booked by the Bank higher than the requirement of Attachment 3 of BSP Circular 1011 (Appendix 15 of MORB), "Guidelines for Adoption of PFRS 9'.

Sales Contract Receivable
Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accrued over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 15 "Revenue". Provided, that SCR shall be subject to impairment provisions of PFRS 9.

SCRs that meet all the requirements or conditions enumerated below are considered performing assets

1. That there has been a down payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;
2. That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
3. That any grace period in the payment of principal shall not be more than two (2) years and;
4. That there is no installment payment in arrear either on principal or interest: Provided, That an SCR account shall be automatically classified "Substandard" and considered non-performing in case of non-payment of any amortization due: Provided, further, That an SCR which has been classified "Substandard" and considered non-performing due to non-payment of any amortization due may only be upgraded restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established

Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)
HTM Financial assets are renamed as 'Debt Securities at Amortized Cost' as required under Annex A of BSP Circular 1011. These are financial assets other than those that are designated at fair value through profit or loss, which meet both of the following conditions:
- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in accordance with PFRS 9 and BSP Circular 1011, as shown in Note 6. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Premises, Furniture, Fixtures and Equipment's
The initial cost of premises, furniture, fixtures, and equipment except land, comprises its purchase price including import duties, borrowing costs (during the construction period), and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such asset when the recognition criteria are met and the estimated cost of dismantling and removing the asset and restoring the site. Land is stated at cost less any impairment value.

Expenditures incurred after the premises, furniture, fixtures, and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied.

For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

The useful lives and depreciation or amortization method are being reviewed by the Bank periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of premises, furniture, fixtures, and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at each balance sheet date.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. Land is not depreciated.

The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are as follows:

Buildings	10 - 20 years
Building and Leasehold Improvement	10 - 20 years
Transportation equipment	3 - 5 years
Furniture and fixtures	1 - 5 years
Information Technology Equipment	1 - 2 years

Fully depreciated assets are retained in the accounts at ₱ 1 net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property and equipment from the Bank's book of accounts should be approved by the management.

Impairment of Premises, Furniture, Fixtures & Equipment
An assessment is made at the balance sheet date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risk specific to the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for premises, furniture, fixtures, and equipment) had no impairment loss was recognized for the asset in prior years. A reversal for impairment loss is credited to current operations.

Investment Properties
Investment Properties based of Section 382 of the MORB states that ROPA shall be booked initially at carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based in PFRS 9 provisioning requirements) plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the derecognition shall be recorded as gain on sale of investment properties in the Statement of Income in the year of disposal.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period when the costs are incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets of 10 years or shorter from the date of acquisition. Land is not depreciated.

However, under Sec.382c of the BSP MORB, land and building classified as Real and Other Properties Acquired (ROPA) shall be accounted for as Investment Properties under PAS 40.

Right-of-use Assets
The Bank recognizes right-of-use assets using prospective application for the remaining lease term (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at remaining cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The remaining cost of right-of-use assets includes the amount of lease liabilities recognized. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

	Years
Buildings and improvements	2 to 12

Intangible Assets
An intangible asset pertains to acquired information technology software capitalized on the basis of the cost incurred to acquire and bring to use the specific software. This asset is stated at historical cost less amortization. However, costs for licenses incurred for maintaining the software are charged to operations. Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets provided, they meet the following recognition requirements:

- Demonstration of technological feasibility of the prospective product for internal use or sale;
- The intangible asset will generate probable economic benefits through internal use or sale;
- Sufficient technical, financial and other resources are available for completion; and
- The intangible asset can be reliably measured.

Intangible assets are subject to impairment testing. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install specific software.

Amortization on other computer software is provided on a straight-line method over the estimated useful lives of 1 - 2 years.

Other Assets
Other assets represent residual accounts which were not classified as a separate line item in the Financial Reporting Package (FRP) - Manual of Accounts issued by the Bangko Sentral ng Pilipinas.

Impairment of Non-Financial Assets
The Bank assesses at each reporting date if there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognized in the Income Statement in the expense categories.

The assessment is made at each reporting date. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount net of depreciation that would have been determined, had no impairment loss have been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Liabilities
Financial liabilities include deposit liabilities, bills payable and other accrued expenses and are recognized when the Bank becomes party to the contractual agreement of the instrument. Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. The following compose the financial liabilities of the Bank.

Deposit Liabilities
The deposit liability account includes savings, demand and term deposits. Savings and demand deposits are interest bearing or non-interest bearing and are withdrawable upon presentation of properly accomplished withdrawal slip, passbook and cheque. Term deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificate of deposit and passbook issued by the Bank.

Accrued Expenses and Other Liabilities
These refer to obligations already incurred by the Bank which are not yet paid as of the balance sheet date. These are normally measured at actual costs.

Provisions
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 on balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. 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. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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

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

Contingencies
Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefit is probable.

Revenue Recognition
The Bank primarily derives its revenue from interest income on loans. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services. The Bank assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or as an agent. The Bank is acting principal in its revenue arrangements to its customers, revenue is recognized on a gross basis. However, if the Bank is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue.

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

Revenue within the scope of PFRS 15:

<u>*Loan Fees and Service Charges*</u>
Loan fees directly related to acquisition and origination of loans are included in the cost of receivables and are amortized using the effective interest rate method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower.

Service charges are recognized earned or accrued where there is reasonable degree as to its collectability

Revenue outside the scope of PFRS 15:

<u>*Interest Income*</u>

Interest on Loans
Interest Income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on accrual basis. The accrual basis of recognition of interest income, however, ceases when the loans and discount is already past due.
The Bank shall only charge interest based in the outstanding balance of a loan at the beginning of an interest period. For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Interest Income on Bank deposits and Debt Securities measured at Amortized Cost
Interest on bank deposits and held-to-maturity financial assets are recognized using the accrual method.

Other Income
Other income arising from litigation, service charges, membership fee, rental income and others. Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

<u>Lease Recognition</u>
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities
The Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate because the interest rate implicit in the lease is not readily determinable. After the initial recognition, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on lease liabilities) and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Employee Benefits
a. Short-term benefits
The Bank provides short term benefits to its employees in the form of salaries and wages, 13th month pay, contributions to SSS/PHIC/HDMF and other short term employee benefits and are presented as part of the operating expenses as compensation and fringe benefits -employees.

b. Retirement Benefits
Republic Act (RA) No. 7641 (New Retirement Law) which took effect on January 7, 1993 requires the Bank to provide minimum retirement benefit to qualified retiring employees. Minimum retirement benefit is equivalent to at least one-half month salary for every year of service. An employee upon reaching sixty years of age and who has served at least five years may retire and be entitled to retirement benefits. The compulsory retirement age is sixty-five (65) years of age.

c. Retirement Cost
The Bank has a contributory define benefit retirement plan. The retirement cost of the Bank is determined using the projected unit cost method. Under this method, the current service cost is the present value of retirement obligation in the future with respect to services rendered in the current year.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset the arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in Other Comprehensive Income (OCI) in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Income Taxes
Income tax expense includes current tax expense and deferred tax expense. The current tax expense is based on taxable profit for the year. Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any net operating loss carry over (NOLCO) or excess of minimum corporate income tax (MCIT) over the regular corporate income tax(RCIT). The net carrying amount of deferred tax asset is reviewed at each reporting date and any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

<u>Equity</u>

Share Capital
Share Capital is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible. Capital stock consist of common shares.

Subscribed common stock is recognized at subscribed amount net of subscription receivable. Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

Retained Earning
Retained earnings represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Dividends
Cash dividends are recognized as liability and deducted from the equity when approved by the Board of Directors (BOD) while stock dividends are deducted from equity when approved by BOD and stockholders. Dividends for the year that are approved after the reporting date are dealt with as subsequent events. Stock issuance costs are accounted for as deduction from equity.

Earnings per Share
Earnings per share (EPS) is computed by dividing net income by the weighted average number of ordinary shares outstanding during the year with retroactive adjustments applicable, if any, to preference shares.

Book Value per Share
The book value per common share is derived from the total stockholders' equity net of dividends (for cumulative shares) divided by the total number of ordinary shares outstanding during the year.

Related Party Relationships and Transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Events after Reporting Date
Post-year-end events up to the date of approval of the BOD of the financial statements that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed in the notes when material to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

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

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

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

a. Leases

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the stand-alone credit rating, or to reflect the terms and conditions of the lease).

Operating lease

Bank as lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased and so accounts for the contracts as operating leases.

Bank as lessee

The Bank has entered into leases on premises it uses for its operations. The Bank has determined, based on the evaluation of the terms and conditions of the lease agreements (i.e. the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of the ownership of these properties and so accounts for these contracts as operating leases.

b. Classification of financial instruments

The Bank exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

c. Determination of Functional currency

PAS 21, the effects of Changes in Foreign Exchange Rates require management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

c.1. The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);

c.2. The currency in which funds from financing activities are generated; and c.3. The currency in which receipts from operating activities are usually retained.

The Bank has determined that its functional currency is the Philippine Peso which is the currency of the primary environment in which the Bank operates.

d. Recognition of Provision and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are presented in the Notes to the Financial Statements.

e. Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held for Sale and Investment Property
At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

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

a. Determination of Fair Values of Financial Assets and Liabilities
PFRS requires certain financial assets and liabilities to be carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Bank utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the Bank's statement of comprehensive income and statement of changes in equity.

b. Allowance for Credit Losses
The allowance for credit losses, which includes both specific and general loan loss reserve represents management's estimate of probable losses inherent in the portfolio, after considering the prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospect of support from guarantors, subsequent collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines in establishing specific loan loss reserves for classified loans and other risk assets a provided under Sec. 143 and Appendix 15 of the Manual of Regulations for Banks.

Individually assessed loans and other credit accommodations (which include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances):
Loans and other credit accommodation with unpaid principal and/or interest is being classified and provided with allowance for credit losses (ACL) based on the number of days missed payments as follows:

For unsecured loans and credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days	Substandard (Underperforming)	10%	2
91 - 120 days	Substandard (Non-Performing)	25%	3
121 - 180- days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard (Underperforming)	10%	2
91 - 180 days	Substandard (Non-Performing)	10%	3

181 - 365- days	Substandard (Non-Performing)	25%	3
Over 1 year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
**When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*			

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

Loans and other credit accommodations that exhibit the characteristics for classified account is being provided with allowance for credit losses as follows:

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

**The stage depends on whether the accounts are classified as non-performing (Stage 3) or under performing (Stage 2).*

Unsecured loans and other credit accommodations classified as "substandard" in the last two (2) internal credit reviews which have been continuously renewed or extended without reduction in principal and is not in process of collection, is downgraded to "doubtful" classification and provided with 50% allowance for credit losses.

Loans and other credit accommodations under litigation which have been classified as "pass" prior to litigation process is classified as 'substandard" and provided with 25% ACL.

Loans and other credit accommodations that were previously classified as "pass" but were subsequently restructured shall have a minimum classification of "especially mentioned" and provided with a 5% ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Collectively Assessed Loans and Other Credit Accommodations which includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other types of loan which fall below the Bank's materiality threshold for individual assessment:
Current "pass" loans and other credit accommodations is provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
1-30 days	Especially Mentioned	2%	2
31-60 days/1st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit accommodations:

No. of Days Unpaid/With Missed Payments	Classification	Allowance for Credit Losses (ACL)		STAGE
		Other types of collateral	Secured by real estate	
31 - 90 days	Substandard (Underperforming)	10%	10%	2
91 - 120 days	Substandard (Non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances is treated as if these are unsecured. Unclassified loans and receivables-General loan loss provision

For unclassified loans:	
Unclassified restructured loans	5% of the borrower's outstanding loan
Unclassified other than restructured	1% of the borrower's outstanding loan

Outstanding loans that were already subjected to specific provisioning were no longer included in the general loan loss provisioning as shown above.

<u>Other Risk Assets</u>
Other risk assets such as accounts receivable are also given allowance after considering the nature of the transaction and the degree of collectibles of the accounts.

Provisions for losses (expense account) on the above cited risk assets are determined by the required allowance at the end of the year less the beginning allowance for a particular year adjusted by write-off and recovery, if any.

c. Useful lives of Bank Premises, Furniture, Fixtures & Equipment
The useful lives of Bank Premises, Furniture, Fixtures and Equipment are estimated based on the period over which these assets are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are reviewed periodically and are updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the Bank Premises, Furniture, Fixtures and Equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment.

d. Useful life of Depreciable Investment Property
The assumptions and estimates used by the Bank in the useful life of Investment Property are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that Investment Property -building and Investment Property -Other Non-Financial Assets specifically those that were accounted for as Investment Property under PAS 40 shall be depreciated only for a period of not more than 10 and 3 years respectively reckoning from the date of foreclosure. Thus, the lower between the estimate of the Bank and BSP regulation shall prevail.

e. Determination of Impairment of Non-financial Assets
An impairment review should be performed when certain impairment indicators are present.

Determining the value in use of Bank Premises, Furniture, Fixtures and Equipment which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that Bank Premises, Furniture, Fixtures and Equipment are impaired.

Any resulting impairment loss could have a material adverse impact on the Bank's financial position and financial performance.

f. Recognition of Retirement Costs.
The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions include among others, discount rates and salary rate increase. Actual results that differ from the assumptions generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

g. Recognition of Deferred Tax Assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the deferred tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments consist of cash and cash equivalents, receivables and payables which arise from operations, and long-term investments. The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. The Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability. Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business validity and good financial position in the market.

The inherent risks which can arise from the Bank's financial instruments are credit risk, market risk (i. e. interest rate risk, currency risk and price risk) and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The Board of Directors reviews and agrees on policies for managing each of these risks and are summarized as follows:

Credit Risk
Credit risk is the risk of financial loss due to the other party's failure to discharge an obligation cited in a binding financial instrument. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients and invests funds to issuers. The Bank manages the level of credit risks it accepts through comprehensive credit risk policy setting assessment and determination of what constitutes credit risk for the Bank; setting up exposure limits by each counterparty or group of counterparties, geographical and industry segments; guidelines on obtaining collateral guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2022 and 2021:

	2022			
	Loans and Receivables*	**Due from BSP and Other Banks**	**Debt Securities Measured at Amortized Cost****	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal	**₱ 72,746,883**	**₱ -**	**₱ -**	**₱ 72,746,883**
Agriculture, forestry and fishing	**48,036,948**	**-**	**-**	**48,036,948**
Financial institutions	**-**	**296,949,602**	**-**	**296,949,602**
Government	**-**	**44,270,607**	**657,050,275**	**701,320,882**
Education	**1,035,732**	**-**	**-**	**1,035,732**
Construction	**14,867,795**	**-**	**-**	**14,867,795**
Manufacturing	**116,276,844**	**-**	**-**	**116,276,844**
Household Consumption	**28,138,680**	**-**	**-**	**28,138,680**
Transportation and storage	**16,952,578**	**-**	**-**	**16,952,578**
Real estate activities	**604,924,206**	**-**	**-**	**604,924,206**
Accommodation and Food Services	**224,811,560**	**-**	**-**	**224,811,560**
Administrative and support service activities	**1,991,412**	**-**	**-**	**1,991,412**
Electricity, gas, stream and air-conditioning supply	**1,664,738**	**-**	**-**	**1,664,738**
Human health and social work activities	**64,576,980**	**-**	**-**	**64,576,980**
Mining and quarrying	**7,430,769**	**-**	**-**	**7,430,769**
Other service activities	**30,528,896**	**-**	**-**	**30,528,896**
Total	**₱1,233,984,021**	**₱ 341,220,209**	**₱ 657,050,275**	**₱2,232,254,505**

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is net of unamortized premium and discounts*

	2021			
	Loans and Receivables*	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal	₱ 88,654,444	₱-	₱-	₱ 88,654,444
Agriculture, forestry and fishing	37,349,793	-	-	37,349,793
Financial institutions	-	228,352,726	-	228,352,726
Government	-	120,309,884	370,316,469	490,626,353
Education	1,739,551	-	-	1,739,551
Construction	21,151,927	-	-	21,151,927
Manufacturing	132,109,485	-	-	132,109,485
Financial and insurance activities	-	-	-	-
Household Consumption	18,603,347	-	-	18,603,347
Transportation and storage	27,078,399	-	-	27,078,399
Real estate activities	579,173,555	-	-	579,173,555
Accommodation and Food Services	231,005,860	-	-	231,005,860
Administrative and support service activities	3,978,157	-	-	3,978,157
Arts, entertainment and recreation	-	-	-	-
Electricity, gas, stream and air-conditioning supply	3,263,057	-	-	3,263,057
Human health and social work activities	81,668,832	-	-	81,668,832
Mining and quarrying	8,786,086	-	-	8,786,086
Professional, Scientific and Technical Activities	27,762,596			27,762,596
Other service activities	3,263,057	-	-	3,263,057
Total	₱1,265,588,146	₱ 348,662,610	₱370,316,469	₱1,984,567,225

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is net of unamortized premium and discounts*

Credit quality per class of financial assets

The tables below show the credit quality per class of financial assets as at December 31, 2022 and 2021:

	2022				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱ 44,270,607**	**₱ -**	**₱ -**	**₱ -**	**₱44,270,607**
Due from other banks	**296,949,602**	**-**	**-**	**-**	**296,949,602**
Loans Receivable*	**1,133,338,619**	**47,492,125**	**51,693,296**	**1,459,981**	**1,233,984,021**
Sales Contract Receivable**	**4,589,188**	**5,816,720**	**8,747,629**	**10,460,504**	**29,614,041**
Other receivables:					
Accounts receivable	**2,976,715**	**-**	**-**	**-**	**2,976,715**
Accrued Interest Receivable***	**9,737,849**	**-**	**-**	**-**	**9,737,849**
Debt Securities Measured at Amortized Cost****	**653,473,381**	**-**	**-**	**-**	**653,473,381**
Total	**₱2,145,335,961**	**₱53,308,845**	**₱60,440,925**	**₱11,920,485**	**₱2,271,006,216**

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is gross of ACL*
**** Consists of accrued interest from time deposit from other bank*
**** Amount is net of unamortized premium and discounts*

	2021				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱ 36,681,377	₱ -	₱ -	₱ -	₱36,681,377
Due from other banks	311,981,233	-	-	-	311,981,233
Loans Receivable*	1,097,469,509	71,837,113	90,239,292	2,779,175	1,262,325,089
Sales Contract Receivable**	4,111,738	-	26,874,726	-	30,986,464
Other receivables:					
Accounts receivable	3,935,857	-	-	-	3,935,857
Accrued Interest Receivable***	-	3,705	-	-	3,705
Debt Securities Measured at Amortized Cost****	370,316,469	-	-	-	370,316,469
Total	₱1,824,496,183	₱71,840,818	₱117,114,018	₱2,779,175	₱2,016,230,194

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is gross of ACL*
**** Consists of accrued interest from time deposit from other bank*
***** Amount is net of unamortized premium and discounts*

Aging analysis of past due but not impaired loans and receivables

The following tables show the total aggregate amount of loans and receivables that are contractually past due but not considered impaired per delinquency bucket as at December 31, 2022 and 2021.

	2022				
at Amortized Cost	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 days and up**	**Total**
Past Due Performing	**₱34,073,361**	**₱52,000**	**₱-**	**₱-**	**₱34,125,361**
Past Due Non-Performing	**4,272,127**	**2,812,041**	**13,538,763**	**1,270,175**	**21,893,106**
Items In Litigation	**-**	**-**	**-**	**1,428,892**	**1,428,892**
	₱38,345,488	**₱2,864,041**	**₱13,538,763**	**₱2,699,067**	**₱57,447,359**

	2021				
at Amortized Cost	31 to 60 days	61 to 90 days	91 to 180 days	181 days and up	Total
Past Due Performing	₱5,329,348	₱45,444,071	₱-	₱-	₱50,773,419
Past Due Non-Performing	499,202	9,123,781	3,494,763	10,405,455	23,523,201
Items In Litigation	-	-	-	2,779,175	2,779,175
	₱5,828,550	₱54,567,852	₱3,494,763	₱13,184,630	₱77,075,795

Market Risk

Market risk is the risk of loss that may result from the changes in price of a financial product. The value of a financial product may change as a result of changes in interest rates (currency risk) and market prices (price risk). Interest rate risk is the risk that the value of financial instrument will fluctuate because of changes in market interest rates, Currency risk on the other hand is the risk that the value of instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Interest rate risk
The Bank's loan receivables earn effective interest rates ranging from 5.75% to 24.00% for both 2022 and 2021. The Bank's interest rate on its deposit liabilities is 0.125% on its savings and demand accounts, and ranges from 0.25% to 3.00% on its time deposits.

However, the Bank earns 2.375% to 6.350% from its investment in bonds and treasury bills and ranging from 0.0625% to 5.5% on its savings and time deposits with other Banks.

Liquidity Risk
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It may result from either inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of contractual obligation; or inability to generate cash inflows as anticipated.

The Bank monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Bank maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuations in cash flows and a balance between continuity of funding and flexibility through the use of short-term debt and advances from related parties and an arrangement for a stand-by credit line facilities with any reputable bank and in case of emergency. Interest rate and maturity matching analysis is used to quantify monitoring of liquidity position.

The tables below summarize the maturity profile based on contractual undiscounted cash flows of the Bank's financial liabilities and related financial assets used for liquidity purposes:

	2022					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Liabilities						
Deposit liabilities	**₱1,492,493,818**	**₱107,640,449**	**₱107,787,005**	**₱183,972,984**	**₱ 13,390,194**	**₱1,905,284,450**
Other Liabilities:						
Accrued expenses	**2,494,287**	**-**	**-**	**-**	**-**	**2,494,287**
Accrued interest payable	**13,517,496**	**-**	**-**	**-**	**-**	**13,517,496**
Accounts payable	**1,564,880**	**-**	**-**	**-**	**-**	**1,564,880**
Total Financial Liabilities	**1,510,070,481**	**107,640,449**	**107,787,005**	**183,972,984**	**13,390,194**	**1,922,861,113**
Financial Assets						
Cash and other cash items	**20,826,548**	**-**	**-**	**-**	**-**	**20,826,548**
Due from BSP	**44,270,607**	**-**	**-**	**-**	**-**	**44,270,607**
Due from other banks	**296,949,602**	**-**	**-**	**-**	**-**	**296,949,602**
Loans and receivable*	**2,181,987**	**8,878,237**	**3,877,080**	**29,558,182**	**1,168,936,314**	**1,213,431,800**
Sales Contract Receivable**	**3,608,771**	**-**	**115,478**	**864,940**	**25,024,853**	**29,614,042**
Accounts receivable	**-**	**2,976,715**	**-**	**-**	**-**	**2,976,715**
Accrued Interest Receivable***	**9,737,849**	**-**	**-**	**-**	**-**	**9,737,849**
Debt Securities Measured at Amortized Cost****	**31,682,778**	**72,829,896**	**40,930,995**	**120,559,001**	**387,470,711**	**653,473,381**
Total Financial Assets	**409,258,142**	**84,684,848**	**44,923,553**	**150,982,123**	**1,581,431,878**	**2,271,280,544**
Liquidity Position (Gap)	**₱1,100,812,339**	**₱22,955,601**	**₱62,863,452**	**₱32,990,861**	**₱(1,568,041,684)**	**₱ (348,419,431)**

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is gross of ACL*
**** Consists of accrued interest from debts securities measured at amortized cost and time deposit from other bank*
***** Amount is net of unamortized premium and discounts*

	2021					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	₱1,295,979,695	₱102,642,140	₱93,879,784	₱175,009,495	₱ 32,309,505	₱1,699,820,619
Bills Payable						
Other Liabilities:	8,712,322	-	-	-	-	8,712,322
Accrued expenses	2,047,995	-	-	-	-	2,047,995
Accrued interest payable	-	10,591,434	-	-	-	10,591,434
Accounts payable	1,306,740,012	113,233,574	93,879,784	175,009,495	32,309,505	1,721,172,370
Total Financial Liabilities	2,613,480,024	226,467,148	187,759,568	350,018,990	64,619,010	3,442,344,740
Financial Assets						
Cash and other cash items	24,671,873	-	-	-	-	24,671,873
Due from BSP	36,681,377	-	-	-	-	36,681,377
Due from other banks	311,981,233	-	-	-	-	311,981,233
Loans and receivable*	9,710,158	8,467,284	9,747,588	35,656,416	1,198,743,643	1,262,325,089
Sales Contract Receivable**	1,524,795	-	1,245,487	1,342,456	26,873,726	30,986,464
Accounts receivable	-	3,935,857	-	-	-	3,935,857
Accrued Interest Receivable***	3,705	-	-	-	-	3,705
Debt Securities Measured at Amortized Cost****	57,028,819	16,434,108	43,290,189	-	252,011,218	368,764,334
Total Financial Assets	441,601,960	28,837,249	54,283,264	36,998,872	1,477,628,587	2,039,349,932
Liquidity Position (Gap)	₱2,171,878,064	₱197,629,899	₱133,476,304	₱313,020,118	₱(1,413,009,577)	₱ 1,402,994,808

** Amount is gross of ACL and net of unamortized discounts*
*** Amount is gross of ACL*
**** Consists of accrued interest from debts securities measured at amortized cost and time deposit from other bank*
***** Amount is net of unamortized premium and discounts*

Operational Risks

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Bank's involvement in financial instruments, personnel, technology and infrastructure and external factors other than market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Minimum Liquidity Ratio (MLR)

Minimum Liquidity Ratio (MLR) for Stand-Alone TBs, RBs and Coop Banks. To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities. The prudential MLR requirement applies to all TBs, RBs and Coop Banks and QBs that are not subsidiaries of UBs/KBs.

On March 26, 2020, the Monetary Board in its Resolution No. 427.B issues the Memorandum No. M-2020-020 reducing the MLR from twenty percent (20%) to sixteen percent (16%) to address the increasing liquidity risk exposure of the Banks arising from higher demands for funds by depositors, borrowers or both brought by the COVID-19 outbreak the implementation of community quarantine until December 31, 2020. On January 13, 2022, the Monetary Board in its Resolution No. 65 issues the Memorandum No. M-2022-004 to prolonged or extend the reducing of MLR of stand-alone thrift, rural, and cooperative banks until the end of December 31, 2022.

Minimum Liquidity Ratio (MLR) as of December 31, 2022

PART 1. MINIMUM LIQUIDITY RATIO (MLR)	
A. Stock of Liquid Assets	**₱956,110,138**
B. Qualifying Liabilities	**₱1,618,221,587**
Minimum Liquidity Ratio	**59%**
PART II. STOCK OF LIQUID ASSETS	
Cash on Hand	₱20,826,548
Bank Reserves in the BSP	44,270,607
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	594,063,381
Deposits in Other Banks	296,949,602
	956,110,138

PART III. QUALIFYING LIABILITIES

A. Qualifying Liabilities		
1 Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below (50%)		358,663,913
2. Obligations arising from operational expenses	-	
3. Total on Balance Sheet Liabilities	1,992,331,534	
4. Deduct: Sum of A1 to A2	732,773,860	
B. Other on-balance sheet liabilities (Item A.3 less A.4)		1,259,557,674
C. Irrevocable obligations under off-balance sheet items		-
D. Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)		**₱1,618,221,587**

6. CASH AND CASH EQUIVALENTS

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

	2022	2021
6.1. Cash and Other Cash items		
Cash on Hand and in Vault	**₱ 20,826,548**	₱24,671,873
Cash and Other Cash Items	-	-
Total cash and other cash items	**₱ 20,826,548**	24,671,873
6.2. Due from BSP and other Banks		
Due from Bangko Sentral ng Pilipinas	**44,270,607**	36,681,377
Due from Other Banks	**296,949,602**	311,981,233
Total due from BSP and other banks	**341,220,209**	348,662,610
Total Cash and Cash Equivalent	**₱ 362,046,757**	₱373,334,483

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Checks and other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours. For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

The balance of Due from BSP account serves as the Bank's reserve for its deposit liabilities. Under the Manual of Regulations for Banks, a Bank is required to maintain its reserve requirements for its deposit liabilities in the form of deposits with the BSP Section 252 of MORB further provides that such deposit account with the BSP is not considered as a regular current account. Drawings against such deposits shall be limited to: (a) settlement of obligations with the BSP; and, (b) withdrawals to meet cash requirements.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its operating funds. Breakdown of this account follows:

Name of Banks	**2022**	**%**	2021	%
Asia United Bank	**₱104,834,531**	**35.30%**	₱77,617,531	24.88%
Banco De Oro	**38,606,275**	**13.00%**	3,799,719	1.22%
Bank of Commerce	**32,538,778**	**10.96%**	12,053,845	3.86%
Bank of the Philippine Island	**4,552,883**	**1.53%**	3,528,017	1.13%
Chinabank	**40,782,224**	**13.73%**	11,146,218	3.57%
Development Bank of the Philippines	**519,995**	**0.18%**	4,825,211	1.55%
Eastwest Bank	**6,452,848**	**2.17%**	10,000,592	3.21%
Landbank of the Philippines	**15,599,730**	**5.25%**	88,810,184	28.47%

Maybank	**295,431**	**0.10%**	143,362	0.05%
Metrobank	**468,510**	**0.16%**	209,845	0.07%
Philippine National Bank	**6,811,771**	**2.29%**	2,035,983	0.65%
Rural Bank of Angeles	**10,381,985**	**3.50%**	10,380,908	3.33%
Rizal Commercial Banking Corporation	**3,111,128**	**1.05%**	5,267,031	1.69%
Security Bank	**21,575**	**0.01%**	489,500	0.16%
Unionbank	**4,215,983**	**1.42%**	4,012,333	1.29%
United Coconut Planters Bank	**27,755,955**	**9.35%**	77,660,954	24.89%
Total	**₱296,949,602**	**100.00%**	₱311,981,233	100.00%

Under Sec.362g of the Manual of Regulations for Banks, loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank whether locally or abroad shall be subject to the Single Borrower's Limit of 25% of the Net worth as herein prescribed or ₱100 Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

On March 19, 2020, the Monetary Board, on its Resolution issued the Memorandum No. M-2020-011 increasing the single borrower's limit (SBL) from 25% to 30% for a period of six (6) months from March 19, 2020. On January 13, 2022, the Monetary Board in its Resolution No. 65 issues the Memorandum No. M-2022-004 to prolonged or extend the effectivity of the single borrower's limit for Philippine banks and foreign bank branches until end of December 31, 2022.

As of December 31, 2022, the Bank's SBL was registered at ₱117,301,319 and as per BSP Manual of Regulations, banks are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

As of December 31, 2022 and 2021, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

Cash in bank represents current account in local bank, savings account, and time deposits. They earn interests ranging from 0.625% to 5.5% for years 2022 and 2021.

Interest income from bank accounts and short-term cash deposits amounted ₱621,686 and ₱277,953 in 2022 and 2021, respectively.

The Bank reconciles the books and bank balances regularly as part of its cash monitoring and internal control measures.

The Bank holds no cash and cash equivalents in 2022 and 2021 which are not available for use by Bank.

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account is consisting of:

	2022	2021
Book Value	**₱655,391,531**	₱366,303,362
Add: Unamortized Premium	**3,077,933**	3,211,615
Accrued Interest Receivable	**3,576,894**	1,552,134
Total	**662,046,358**	371,067,111
Less: Unamortized Discount	**4,996,083**	750,642
Total	**₱657,050,275**	₱370,316,469

This account consists of Treasury Bills, Treasury Bonds, and Treasury Notes. Treasury bills have maturities of a year or less. Treasury notes are issued with maturities from two to ten years. Treasury bonds are long-term investments that have maturities of 10 to 30 years from their issue date.

Debt Securities Measured at Amortized Cost earn interest ranging from 2.375% to 6.350% for 2022 and 2.800% to 6.125% for 2021. The interest income on these accounts amounted to ₱30,433,473 and ₱33,461,091 for 2022 and 2021, respectively.

8. LOANS AND RECEIVABLES

The loan receivables are stated at outstanding balances, net of estimated allowance for credit losses and unearned income/discounts, broken down as follows:

	2022	%	2021	%
Current Loans	**1,139,680,002**	**91.85%**	₱1,103,765,457	86.96%
Past Due Loans - Performing	**47,768,488**	**3.85%**	72,177,837	5.69%
Past Due Loans - Non-Performing	**51,850,582**	**4.18%**	90,547,401	7.13%
Items in Litigation	**1,463,671**	**0.12%**	2,791,423	0.22%
Total	**1,240,762,743**	**100.00%**	1,269,282,118	100.00%
Less: Unearned Income and Discounts	**6,778,721**		6,957,029	
Total, net of discount	**1,233,984,022**		1,262,325,089	
Less: Allowance for Credit Losses (Note 8.1)				
Specific	**20,552,220**		33,493,386	
General	**43,528,813**		35,160,347	
Total	**1,169,902,989**		1,193,671,356	
Add: Accrued Interest Receivable, net	**5,790,000**		6,203,082	
Sales contract receivable, net (Note 8.2)	**29,740,319**		27,453,067	
Total Loans and Receivables, net	**1,205,433,308**		₱1,227,327,505	

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unearned interest and discounts. These receivables can be received either by cash or check payments.

Loans and receivables earn interest income at interest rates ranging 5.75% to 24% in both 2022 and 2021. Total earned interest amounts to ₱109,736,172 and ₱128,214,603 for 2022 and 2021, respectively.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

The total allowance for credit losses of ₱64,081,034 which composed of specific loan loss provisions and general loan loss provision as stated above is in compliance with the BSP Memorandum Circular 1011.

The Bank has in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, are considered in determining the appropriate allowance for credit losses.

The provisioning requirements required by the guidelines are deemed the minimum requirements. Depending on how management evaluates or assesses the collectability prospect on each account, the Bank has the option to be more aggressive in their provisioning, particularly on the Bank's clan loans and those not covered by proven methodology. A stricter provisioning policy may be adopted considering the unsecured nature of these accounts and the higher risk of loss.

Loan accounts and other credit accommodations are classified in accordance with the guidelines in the classification of credits as prescribed under Appendix 15 of the MORB as the minimum criteria and in accordance with the Bank's own set of standards for loan classification using the BSP loan classification criteria as the minimum.

The bank implemented an independent and objective credit review process to determine that credits are granted in accordance with the bank's policies; assess the overall assets quality,

including appropriateness of classification and adequacy of loan-loss provisioning; determine trends; and identify problems (e.g. risk concentration, process risk mitigation, deficiencies in credit administration and monitoring). The audit unit may at its discretion assign a different classification to a particular loan account, when certain important and reasonably specific factor(s)/ information not captured by the classification criteria, work to the advantage and strengthening of the asset, or vice versa. Provided, further, that, the bank may utilize an internal credit risk rating system for its loan account classification system as the basis for its regular setting up of appropriate level of allowance for probable losses.
In the course of the credit review, loan accounts are classified for the following purpose:

- Highlight problem credits for attention and action at appropriate levels. o Categorize problem credits according to severity of actual and/or potential risk of loss;
- Initiate monitoring reports on a periodic basis to assure development of appropriate and ensure adequacy of reserve provisioning.

The Bank employed an appropriate sampling methodology to determine the scope of the credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Moreover, the audit team as part of its scheduled plan of activities will be task to perform this review vis-à-vis the recommendations for further upgrading/downgrading of loan accounts for loan-loss provisioning purposes. Meanwhile, the accounts that will be shortlisted more than once in the sample to be selected should be place/counted only in one of the reviews as may be deemed by the audit team.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up of the valuation allowance for risk assets based on Circular 1011 and Appendix 15 of the MORB. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans.

8.1 Movements in the allowance for credit losses are as follows:

	2022	2021
Balance at beginning of year:		
Loans and receivables	**₱68,653,733**	₱60,976,262
Sales contract receivables	**3,647,619**	5,375,078
Accounts receivables	**715,780**	810,006
Accrued Interest Receivable	**400,715**	473,601
Investment property	**9**	291,089
Total	**73,417,856**	67,926,036
Impairment loss charged to operations	**(1,189,564)**	16,021,734
Write-off/Adjustments to ROPA	**(4,572,699)**	(10,529,914)
	67,655,593	73,417,856
Balance at end of the year:		
Loans and receivables	**64,081,035**	68,653,733
Sales contract receivables	**2,736,685**	3,647,619
Accounts receivables	**652,741**	715,780
Accrued Interest Receivable	**185,123**	400,715
Investment property	**9**	9
	₱67,655,593	₱73,417,856

8.2 SALES CONTRACT RECEIVABLE

This account consists of:

	2022	2021
Performing	**21,969,540**	₱20,255,864
Non- performing	**10,381,187**	10,730,600
Total	**32,350,727**	30,986,464
Add: Accrued Interest Receivable	**126,277**	114,222
Total	**32,477,004**	31,100,686
Less: Allowance for Credit Losses (Note 8.1)	**2,736,685**	3,647,619
Sales Contract Receivable-net	**29,740,319**	₱27,453,067

9. Bank Premises, Furniture, Fixtures and Equipment

This account is consists of:

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT Equipment	Transportation Equipment	Leasehold Improvement	Total
December 31, 2022								
Cost	**₱14,429,929**	**₱25,208,778**	**₱6,687,886**	**₱46,324,940**	**₱10,838,445**	**₱ 10,602,129**	**₱26,779,649**	**₱140,871,756**
Accumulated Depreciation and Amortization	**-**	**14,215,698**	**4,627,060**	**42,310,144**	**10,083,930**	**8,399,011**	**21,334,939**	**100,970,782**
Net carrying amount	**₱14,429,929**	**₱10,993,080**	**₱ 2,060,826**	**₱4,014,796**	**₱ 754,515**	**₱ 2,203,118**	**₱ 5,444,710**	**₱39,900,974**
December 31, 2021								
Cost	₱14,429,929	₱25,208,778	₱6,687,886	₱ 45,266,520	₱9,367,485	₱ 10,015,629	₱ 26,757,163	₱137,733,390
Accumulated Depreciation and Amortization	-	13,452,938	4,265,693	38,735,522	8,439,864	7,256,372	19,151,695	91,302,084
Net carrying amount	₱14,429,929	₱11,755,840	₱2,422,193	₱ 6,530,998	₱ 927,621	₱ 2,759,257	₱ 7,605,468	₱ 46,431,306

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 is shown below:

2022	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	**₱14,429,929**	**₱25,208,778**	**₱6,687,886**	**₱ 45,266,519**	**9,367,485**	**10,015,629**	**26,757,163**	**137,733,389**
Additions	**-**	**-**	**-**	**1,058,421**	**1,470,960**	**586,500**	**-**	**3,115,881**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**22,486**	**22,486**
Balance at end of year	**14,429,929**	**25,208,778**	**6,687,886**	**46,324,940**	**10,838,445**	**10,602,129**	**26,779,649**	**140,871,756**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**-**	**13,452,938**	**4,265,693**	**38,735,522**	**8,439,864**	**7,256,372**	**19,151,694**	**91,302,084**
Additions	**-**	**704,110**	**361,367**	**3,548,740**	**1,725,194**	**1,056,095**	**2,160,758**	**9,556,264**
Adjustments	**-**	**58,650**	**-**	**25,882**	**(81,128)**	**86,544**	**22,487**	**112,434**
Balance at end of year	**14,429,929**	**14,215,698**	**4,627,060**	**42,310,144**	**10,083,930**	**8,399,011**	**21,334,939**	**100,970,782**
Net Book Value	**₱14,429,929**	**₱ 10,993,080**	**₱ 2,060,826**	**₱ 4,014,796**	**₱ 754,515**	**2,203,118**	**₱ 5,444,710**	**₱ 39,900,974**

2021								
	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	₱14,429,929	₱25,208,778	₱ 6,687,886	₱38,389,658	₱8,828,447	₱9,874,029	₱26,957,216	₱130,375,943
Additions	-	-	-	6,876,861	539,038	141,600	-	7,557,499
Adjustments	-	-	-	-	-	-	(200,053)	(200,053)
Balance at end of year	14,429,929	25,208,778	6,687,886	45,266,519	9,367,485	10,015,629	26,757,163	137,733,389
Accumulated Depreciation and Amortization								
Balance at beginning of year	-	12,721,743	3,887,192	36,104,039	7,893,795	5,998,086	18,091,180	84,696,035
Additions	-	628,325	378,501	2,631,483	547,875	1,258,286	2,228,213	7,672,683
Adjustments	-	102,870	-	-	(1,806)	-	(1,167,699)	(1,066,635)
Balance at end of year	-	13,452,938	4,265,693	38,735,522	8,439,864	7,256,372	19,151,694	91,302,083
Net Book Value	₱14,429,929	₱11,755,840	₱2,422,193	₱6,530,997	₱927,621	₱2,759,257	₱7,605,469	₱46,431,306

Depreciation of these accounts amounting to ₱9,556,261 and ₱7,672,683 in 2022 and 2021, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

No additions to property and equipment during the year are treated as non-cash transactions for cash flows.

The value of the Bank premises, furniture, fixtures and equipment of ₱39,900,974, net of accumulated depreciation, as of December 31, 2022 is 10% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

The Bank, after due consideration of the assessment of its impairment, believes that there are no indications that the property and equipment as of December 31, 2022 and 2021 are impaired or its carrying amount cannot be recovered.

10. INVESTMENT PROPERTY

This account is consisting of real estate properties acquired by the Bank in settlement of loans which were recognized as ROPA and accounted for as investment properties to conform with PAS 40. Under Sec. 394.2, ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PAS 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

This account is consists of:

	2022	2021
Land	**₱20,771,744**	₱26,379,416
Building	**19,709,241**	24,465,133
Total	**40,480,985**	50,844,549
Less: Accumulated Depreciation	**4,200,151**	6,886,684
Net Amount	**36,280,834**	43,957,865
Less: Allowance for Credit Losses (Note 8.1)	**9**	9
Net Carrying Amount	**₱36,280,825**	₱43,957,856

A reconciliation of the carrying amounts of the Bank's investment property at the beginning and end of 2022 and 2021 is shown in below:

	2022	2021
Balance at beginning of year net of accumulated depreciation and Impairment loss	**₱43,957,856**	₱40,069,810
Additions	**11,014,821**	5,187,545
Disposal	**(17,236,292)**	(764,619)
Depreciation	**(1,892,274)**	(534,880)
Impairment Losses	**-**	-
Other Adjustments	**436,714**	-
Balance at end of year net of accumulated depreciation and Impairment loss	**₱36,280,825**	₱43,957,856

As of December 31, 2022 and 2021, no amount of investment property was used as collateral for liabilities.

Additions to investment property during the year are through transfer of loans receivables to ROPA account.

11. RIGHT OF USE ASSETS

The Bank is currently leasing its building premises. With the exception of short-term leases and leases of low-value underlying assets, the lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company recorded ROU assets in relation to the leases in line with the adoption of PFRS 16.

As at December 31, 2022 and 2021, the movements of right-of-use assets follow:

	Building
Cost	
At January 1, 2021	**₱ 31,835,019**
Additions	**48,032,039**
At December 31, 2021	**79,867,058**
Additions	**-**
At December 31, 2022	**79,867,058**

Depreciation	
At January 1, 2021	₱ 5,277,412
Additions	10,400,139
At January 1, 2021	15,677,551
Additions	9,231,528
At December 31, 2022	**24,909,079**
Net Book Value	
December 31, 2021	₱64,239,507
December 31, 2022	**₱55,007,979**

12. OTHER ASSETS

This account is consists of:

	2022	2021
Financial Assets		
Accounts Receivables	**₱ 2,976,715**	₱3,935,857
Accrued Interest Receivable	**244,679**	3,705
Non-Financial Assets		
Prepaid Expense	**2,176,782**	2,128,727
PLDT 350 Shares	**3,500**	3,500
Petty Cash Fund	**79,000**	79,000
Stationery and Supplies on Hand	**1,351,124**	1,655,483
Total	**6,831,800**	7,806,272
Less: Allowance for Credit Losses (Note 8.1)	**652,741**	715,780
Net Other Assets	**₱ 6,179,059**	₱7,090,492

The Accounts Receivable represents various advances and payments made by the Bank of various expenses and/or transactions and were charged to the respective accounts of the beneficiaries' subject to liquidation. Prepaid Expenses are future expenses that have been paid in advance.

13. DEPOSIT LIABILITIES

This account is consists of:

	2022	**%**	2021	%
Savings Deposit	**₱1,167,325,302**	**61.27%**	₱996,216,213	58.61%
Special Savings/Time Deposit	**480,663,295**	**25.23%**	475,366,744	27.97%
Demand Deposit	**257,295,853**	**13.50%**	228,237,662	13.43%
Total Deposit Liabilities	**₱1,905,284,450**	**100.00%**	₱1,699,820,619	100.00%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. The total deposits for the year increased by ₱205,463,380 or 12.09% over the figures of 2021.

For the years 2022 and 2021, savings and demand deposit carries an interest rate of 0.125%. The bank's special savings deposit carries interest rate ranging from 0.25% to 3.00% for the years 2022and 2021.

On July 27, 2020, the BSP issued Circular No. 1092 which took effect on July 31, 2020 as amended by Circular No. 1082 dated March 31, 2020 Reduction in Reserve Requirements of 3% for savings and time deposits. The required reserve as of December 31, 2022 amounting to ₱38,105,689 or 2% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱ 44,270,607 as at December 31, 2022.

Interest expense on deposit liabilities charged to profit or loss in 2022 and 2021 amounted to ₱8,836,116 and ₱8,796,713, respectively.

14. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account is consists of:

	2022	2021
Accrued Interest Payable	**₱2,494,287**	₱2,047,995
Accrued Other Expenses Payable	**13,517,496**	8,712,322
Total	**₱ 16,011,783**	₱10,760,317

Accrued interest payable represents the recognition of interest expense already due on financial liabilities such as deposit liabilities as of December 31, 2022 but subsequently paid in the next accounting period. Accrued other expenses payable are year-end expenses payable on the following year.

15. OTHER LIABILITIES

This account is consists of:

	2022	2021
Accounts Payable	**₱ 1,564,880**	₱10,591,434
Premium Payable	**445,357**	420,106
Withholding Taxes Payable	**352,600**	429,223
Special Time Deposit	**19,976**	19,976
Due to Treasurer of the Philippines	**273,953**	273,953
Lease Liability (Note 22)	**66,309,971**	71,516,481
Total	**₱ 68,966,737**	₱83,251,173

The above liabilities are settled either by cash or check payments. As at December 31, 2022 and 2021, no amount of assets was used as collateral, security or guarantee for the above liabilities.

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date.

Withholding taxes payable represents tax withheld on interest expense on deposits, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government.

SSS, Medicare and Pag-ibig Contribution are employees' contribution which are to be remitted by the Bank on January 2023.

Due to Treasurer of the Philippines are deposit account balances which are dormant for ten years or longer which are due for transfer to the Treasurer of the Philippines due to absence of claimant.

16. EQUITY

Share Capital

Ordinary Shares

The ordinary shareholders of the bank are given less priority as to assets liquidation compared to outside creditors and preferred shareholders. Ordinary shares are given equal rights and preference as among ordinary shareholders. The availability of dividends shall be determined by the net income after deducting any restriction for reserve requirements and preferred dividends, if any.

Authorized ordinary share capital as of December 31, 2022 amounted to ₱350,000,000 or 3,500,000 shares with a par value of ₱100 each. Total subscribed ordinary shares amounted to ₱251,930,500 and paid-up ordinary shares amounted to ₱251,930,500 as of December 31, 2022.

Under Section 121: *Minimum Required Capital,* Rural Banks with more than ten (10) branches in all other areas are required to comply with the new minimum capital of ₱200 Million within five (5) years as amended by BSP Circular No. 1151 series of 2022. The Bank is currently compliant with the minimum capital.

The reconciliation of ordinary shares outstanding during the period is as follows:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Share Capital – ₱100 par value, 3,500,000 authorized shares				
Ordinary Shares at the beginning of the year	**2,519,305**	**₱251,930,500**	2,519,305	₱251,930,500
Issuance of shares of stocks from settlement of subscriptions receivable	**-**	**-**	-	-
Ordinary Shares at the end of the year	**2,519,305**	**₱251,930,500**	2,519,305	₱251,930,500
Subscribed	**-**	**-**	-	-
Subscription receivable	**-**	**-**	-	-
	2,519,305	**₱251,930,500**	2,519,305	₱251,930,500

The reconciliation of surplus during the period is as follows:

Retained Earnings - Free

	2022	2021
Balance, Beginning	**₱104,218,328**	₱82,985,834
Net Income (Loss)	**43,584,736**	31,868,751
Provision and Adjustments	**(28,624)**	(5,597,647)
Dividends Declared	**(8,817,568)**	(5,038,610)
Balance, Ending	**₱138,956,872**	₱104,218,328

Retained Earnings - Reserve

	2022	2021
Balance, Beginning	**₱7,022,194**	₱7,022,194
Transfer from/(to)	**-**	-
Balance, Ending	**₱7,022,194**	₱7,022,194

Cash Dividends

The Bank declared Cash Dividends amounting to ₱8,817,568 and ₱5,038,610 for the years 2022 and 2021, respectively. The relative dates of dividend declaration are summarized below:

Type of Dividend	Date of Declaration	Date of Record	Date of Distribution	Amount of Dividend
Cash	February 10, 2022	December 31, 2021	February 14, 2022	₱8,817,568
Cash	February 6, 2021	December 31, 2020	February 6, 2021	5,038,610
Cash	January 16, 2020	December 31, 2019	February 7, 2020	7,908,156
Stock	February 8, 2018	February 8, 2018	February 17, 2020	25,983,200
Cash	February 9, 2019	December 31, 2018	February 21, 2019	7,908,156
Stock	February 8, 2018	February 8, 2018	Upon BSP & SEC approval	25,983,940

Capital Management
The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

The Bank manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

Under Section 127 of the MORB, as amended by Circular No. 1079 dated March 2020, the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks are in Appendix 62 of the MORB.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out 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 CAR of the Bank as at December 31, 2022 and 2021, as adjusted, is shown in the table below:

	2022	2021
Tier 1 capital	**₱394,521,682**	₱358,760,937
Tier 2 capital	**16,618,851**	16,265,258
Total qualifying capital	**₱411,140,533**	₱375,026,195
Risk weighted assets	**₱1,827,075,790**	₱1,775,184,180
Tier 1 capital ratio	**21.59%**	20.21%
Tier 2 capital ratio	**0.91%**	0.92%
Total CAR	**22.50%**	21.13%

The Bank's Total Qualifying Capital as at December 31, 2022 and 2021 was computed as follows:

	2022	2021
A. Calculation of Qualifying Capital		
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	**₱251,930,500**	₱251,930,500
Retained Earnings	**145,979,067**	111,240,522
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	**(3,387,885)**	(4,410,085)
Total Tier 1 Capital	**394,521,682**	358,760,937
A.2 Tier 2 Capital		
General Loan Loss Provisions, net	**16,618,851**	16,265,258
Total Upper Tier 2 Capital	**16,618,851**	16,265,258
TOTAL QUALIFYING CAPITAL	**₱411,140,533**	₱375,026,195

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2022 and 2021, the Bank was in compliance with CAR requirement.

17. OTHER INCOME

This account is consists of:

	2022	2021
Fees and Commission Income	**₱ 9,783,596**	₱5,859,812
Gains on sale of ROPA	**44,570,571**	27,582,032
Recovery on charged off assets	**1,019,999**	70,648
Miscellaneous income	**1,176,375**	98,677
Total	**₱ 56,550,541**	₱33,611,169

18. COMPENSATION AND BENEFITS

This account is consists of:

	2022	2021
Salaries and Wages	**₱ 35,482,857**	₱32,709,983
Compensation Benefits-Officers and Employees	**14,016,721**	10,428,612
Staff Benefits		
Director's Fee	**2,773,333**	2,610,000
SSS, Philhealth and Employees Compensation Premium and PAGIBIG Fund Contribution	**3,736,716**	3,316,634
Medical, Dental, and Hospitalization	**679,252**	994,129
Contribution to Retirement Fund	**1,069,634**	3,455,440
Total	**₱57,758,513**	₱53,514,798

19. RETIREMENT BENEFITS

The Bank provides contributory defined benefit pension plans for all employees that is qualified for retirement. Provisions for pension obligations are established for benefits payable in the form of retirement pensions and the employees do contributes in the Bank's retirement fund but will be fully withdrawn once resigned or separated. Benefits are dependent on years of service and the respective employee's final compensation. The most recent actuarial valuation was carried out as of December 31, 2022. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the projected unit credit actuarial method.

The reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to the recognized liability under the "Retirement benefit asset" account in the statement of financial position is as follows:

	2022	2021
Present value of defined benefit obligation	**₱27,022,110**	₱27,964,666
Fair value of plan assets	**(53,326,040)**	(58,010,275)
Asset ceiling	**8,255,060**	7,292,747
Net defined benefit liability (asset)	**₱(18,048,870)**	₱(22,752,862)

The movement in the defined benefit obligation is shown below:

	2022	2021
Present value of defined benefit obligation, beginning	**₱ 27,964,666**	₱29,378,559
Interest expense	**1,420,605**	1,160,453
Current service cost	**2,315,557**	2,543,620
Benefit paid from Plan assets	**(306,810)**	(963,504)
Actuarial (gains) losses- changes in financial assumptions	**(5,592,801)**	(3,423,094)
Actuarial (gains) losses- changes in demographic assumptions	**-**	(1,527)
Actuarial (gains) losses- experience	**(1,220,110)**	(729,841)
Present value of defined benefit obligation, ending	**₱ 24,581,107**	₱27,964,666

The movement in the plan assets is shown below:

	2022	2021
Fair value of plan assets, beginning	**₱58,010,275**	₱44,019,383
Interest income	**3,037,000**	1,752,357
Contributions	**3,853,171**	1,651,663
Benefit paid from plan assets	**(306,810)**	(963,504)
Remeasurement gain (loss) - return on plan assets	**(11,267,596)**	11,550,376
	₱53,326,040	₱58,010,275

The defined benefit cost recognized in the profit or loss statement consists of:

	2022	2021
Current service cost	**₱2,315,557**	₱2,543,620
Interest cost, net of interest income from plan assets	**(1,245,923)**	(526,482)
	₱1,069,634	₱2,017,138

The defined benefit cost recognized in the other comprehensive income:

	2022	2021
Accumulated comprehensive income, beginning	**₱(582,359)**	₱9,551,406
Actuarial (gains) losses- DBO	**(4,371,908)**	(4,154,462)
Remeasurement (gain) loss- plan assets	**11,267,596**	(11,550,376)
Remeasurement (gain) loss- changes in the effect of the asset ceiling	**591,841**	5,571,073
Defined benefit cost in OCI- Expense (Income)	**7,487,529**	(10,133,765)
Accumulated comprehensive income, ending	**₱6,905,170**	₱(582,359)

The principal assumption used to determine retirement benefit obligation of the Bank are as follows:

	2022	2021
Discount rate	**7.22%**	5.08%
Salary increase rate	**7.00%**	7.00%

The summary of movements in the net defined benefit liability (asset) is as follows:

	2022	2021
Beginning Net defined liability (Asset)	**₱(22,752,862)**	₱(12,984,572)
Defined benefit cost recognized in P&L	**1,069,634**	2,017,138
Defined benefit cost recognized in OCI	**7,487,529**	(10,133,765)
Contributions	**(3,853,171)**	(1,651,663)
Closing Net defined liability (asset)	**₱(18,048,870)**	₱(22,752,862)

Sensitivity Analysis, Year-end defined benefit obligation (DBO)

	2022	2021
a. 1. Decrease in DBO due to 100 bps increase in discount rate	**(2,100,553) ; (7.8%)**	(2,571,113) ; (9.2%)
2. Increase in DBO due to 100bps decrease in discount rate	**2,404,201 ; 8.9%**	2,997,447 ; 10.7%
b. 1. Increase in DBO due to 100bps increase in salary increase rate	**2,385,633 ; 8.8%**	2,910,027 ; 10.4%
2. Decrease in DBO due to 100bps decrease in salary increase rate	**(2,123,163) ; (7.9%)**	(2,550,405) ; (9.1%)
c. Increase in DBO, no attrition rates	**9,951,038 ; 36.8%**	16,240,534 ; 58.1%

Allocation of plan assets	**2022**	2021
Cash and cash equivalents	**93.51%**	91.97%
Loans	**6.49%**	8.03%

20. OTHER OPERATING EXPENSES

This account is consists of:

	2022	2021
Miscellaneous	**₱19,707,934**	₱20,972,439
Interest Expense	**5,006,154**	4,864,310
Insurance expense	**5,634,955**	4,921,163
Security and Messengerial Services	**2,955,211**	2,838,228
Postage, Telephone, and Telegram	**2,601,682**	2,620,493
Power, Light, and Water	**2,356,814**	2,101,141
Publicity and Advertisement	**2,030,905**	1,170,059
Fuel and Lubrication	**1,937,448**	1,204,314
Repair and Maintenance	**1,839,538**	7,085,931
Fees and Commissions Expense	**1,438,429**	849,637
Stationery and Supplies	**1,330,248**	1,507,545
Fines and Penalties	**974,287**	3,067,685
Litigation and Asset Acquired	**874,215**	512,938
Rental	**807,753**	-
Representation and Entertainment	**766,411**	307,998
Information Technology Expense	**595,632**	-
Management and Other Professional Fees	**484,973**	689,480
Supervision Fees	**451,849**	410,049

Membership Fees and Dues	**220,126**	88,385
Travelling	**216,385**	131,452
Donation	**172,730**	231,840
Documentary Stamps	**166,438**	-
Periodicals and Magazines	**-**	5,889
Total	**₱52,570,117**	₱55,580,976

21. DEPRECIATION AND AMORTIZATION EXPENSE

This account is consists of:

	2022	2021
Depreciation Expense – Buildings	**₱1,065,476**	₱1,006,826
Depreciation Expense - Furniture and Fixtures	**3,548,740**	2,631,483
Depreciation Expense - Transportation Equipment	**1,056,095**	1,258,286
Depreciation Expense – Information Technology	**1,725,194**	547,875
Depreciation Expense – Leasehold Improvements	**2,160,758**	2,228,213
Depreciation Expense – ROPA Building	**1,892,274**	1,299,499
Depreciation Expense - Right of Use Asset	**9,231,528**	10,400,139
Total	**₱ 20,680,065**	₱19,372,321

22. LONG-TERM LEASE

Bank as a lessee

	MINIMUM LEASE PAYMENTS						
	WITHIN 1 YEAR	**2-3 YEARS**	**4-5 YEARS**	**6-7 YEARS**	**8-9 YEARS**	**10 YEARS AND BEYOND**	**TOTAL**
December 31, 2022							
Lease Payments	₱10,507,757	₱21,009,838	₱24,433,551	₱29,635,359	₱2,884,591	₱-	₱88,471,096
Finance Charges	4,641,698	8,028,045	6,062,809	3,224,902	203,671	-	22,161,125
Net Present Value	**₱5,866,059**	**₱12,981,793**	**₱18,370,742**	**₱26,410,457**	**₱2,680,920**	**₱-**	**₱66,309,971**

	MINIMUM LEASE PAYMENTS						
	WITHIN 1 YEAR	**2-3 YEARS**	**4-5 YEARS**	**6-7 YEARS**	**8-9 YEARS**	**10 YEARS AND BEYOND**	**TOTAL**
December 31, 2021							
Lease Payments	₱10,212,665	₱20,940,300	₱22,212,319	₱26,947,645	₱18,126,172	₱244,659	₱98,683,760
Finance Charges	5,006,154	8,872,772	7,119,319	4,776,857	1,376,172	16,005	27,167,279
Net Present Value	**₱5,206,511**	**₱12,067,528**	**₱15,093,000**	**₱22,170,788**	**₱16,750,000**	**₱228,654**	**₱71,516,481**

All rentals fees shall be increased by 10% every year beginning from the date of consummation.

24. INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes presented as 'Taxes and licenses' in the statements of income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes.

Income taxes also include RCIT, as discussed below and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Provision for income tax consists of:

	2022	2021
Current	**₱6,526,016**	₱5,874,627
Deferred	**1,022,200**	(2,385,925)
Tax Expense reported in Statement of Comprehensive Income	**₱7,548,216**	₱3,488,702

The current and deferred tax is computed as follows:

Current Tax

	2022	2021
Transitory and Statutory income tax	**₱12,783,238**	₱8,839,363
Income tax effects of:		
Interest income subject to final tax	**(7,763,790)**	(8,434,761)
Interest Income from HGC	**(1,227,250)**	(1,718,075)
Accounts written-off	**(67,388)**	(543,953)
Interest expense	**1,940,947**	2,108,690
Non-Deductible Interest Expense and Depreciation	**3,559,421**	3,816,113
Provision for credit losses	**51,442**	4,212,789
Lease Payments	**(2,750,604)**	(2,405,541)
Current tax expense	**₱6,526,016**	₱5,874,627

Computation of Income Tax:

	2022	2021
Net Income before tax per books	**₱51,132,951**	₱35,357,453
Add: Non-deductible Expenses/Taxable Other Income		
Provision for Credit Losses	**205,769**	16,851,157
Non-deductible Interest Expense and Depreciation	**14,237,682**	15,264,449
Interest expense	**7,763,790**	8,434,761
Total	**73,340,192**	75,907,820
Less: Non-taxable Income and Income Subjected to Final Tax		
Interest Income Subject to Final Tax	**31,055,159**	33,739,044
Interest Income under HGC	**4,909,000**	6,872,295
Accounts written off	**269,552**	2,175,812
Lease payments	**11,002,419**	9,622,162
Net Taxable Income	**26,104,062**	23,498,507
Tax Rate	**25%**	25%
Normal Corporate Income Tax	**6,526,016**	5,874,627
Minimum Corporate Income Tax**	**982,072**	973,057
Income Tax Due	**6,526,016**	5,874,627
Less: Tax payments for the previous quarters	**3,765,536**	3,416,132
Creditable Tax Withheld per BIR Form 2307	**691,916**	183,420
Income Tax Still Due/(Overpayment)	**₱2,068,564**	₱2,275,075

***Below is the computation of Minimum Corporate Income Tax (MCIT) for the years ended December 31, 2022 and 2021.*

	2022	2021
Revenue	**₱140,791,331**	₱161,953,647
Cost of Revenue	**63,170,503**	57,647,796
Gross Income	**77,620,828**	104,305,851
Add: Other Income	**56,550,542**	33,611,169
Less: Interest Income Subjected to Final Tax	**31,055,159**	33,739,044
Interest Income under HGC	**4,909,000**	6,872,295
Total Gross Income	**98,207,210**	97,305,681
MCIT Rate	**1%**	1%
Minimum Corporate Income Tax	**₱982,072**	₱973,057

An analysis of deferred tax assets

As at December 31, 2022 and 2021, net deferred tax assets are as follows:

	2022	2021
Deferred Tax Asset - Beginning	**₱11,185,820**	₱6,199,861
Provision for Credit Losses	**51,442**	4,212,789
Lease Liability	**1,301,628**	1,317,123
Used DTA from accounts written-off	**(67,388)**	(543,953)
	12,471,502	11,185,820
Deferred Tax Liability - Beginning	**6,775,735**	4,175,700
Right of Use Asset	**2,307,882**	2,600,035
	9,083,617	6,775,735
Net Deferred Tax Assets	**₱3,387,885**	₱4,410,085

25. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Entities are considered to be related if they are subjected under common control or significant influence. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities
- which are controlled, significantly influenced by or for which significant voting power is held
- by key management personnel or their close family members,
- post-employment benefit plans for the benefit of the Bank's employees, and

The Bank has business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Remunerations of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows:

	2022	2021
Short-term employee benefits	**₱10,618,607**	₱9,104,568
Total	**₱10,618,607**	₱9,104,568

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

26. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

The Bank had completely satisfied the reporting requirements as required by the Bangko Sentral ng Pilipinas (BSP) and RA 9160 as amended by RA 9194 otherwise known as the Anti-Money Laundering Act.

2. As of December 31, 2022, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by Section 132 of the MORB.

27. RECLASSIFICATION OF ACCOUNTS

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. Management believes that the reclassifications resulted to a better presentation of accounts and did not have any impact on prior year's profit or loss.

These reclassifications had no effect on the reported results of operations. Adjustments have been made to the Statements of Financial Position and Statements of Cash Flows for the fiscal year ended December 31, 2021. These changes in classification do not affect previously reported financial statements.

28. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR 15-2010 and RR 19-2011

Revenue Regulation (RR) No 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year.

Percentage Taxes (Gross Receipt Tax)

Under Section 121 of the National Internal Revenue Code, there shall be tax on gross receipts derived from all sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following rates:

a) On interest commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period of five (5) years or less 5%
Maturity period is more than five (5) years..1%

b) On dividends..0%

c) On royalties, rentals of property, real or personal, profit from exchange and all other items treated as gross income under Section 32 of the NIRC...7%

d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments..7%

GRT in 2022 consists of taxes on:

Interest income on loans and other related income from lending operations	**₱1,602,159**
Other income	**3,662,025**
	₱5,264,184

Documentary Stamp

Pursuant to revenue regulation No. 13-2004 dated December 23, 2004 " Implementing provisions of Republic Act No.9243, an act rationalizing the provisions of the documentary stamp tax of the Internal Revenue Code of 1997 (as amended), below are some of the circulars affecting the operation of bank and non-bank financial intermediaries:

Section 51 of Republic Act No 10963: New Rate of DST on Original Issuance of Shares of Stock

There shall be two pesos (₱2.00) on each two hundred pesos (₱ 200.00) or fractional part thereof of the par value of such shares of stock. Provided that in case of original issue of shares of stocks without par value, the amount of documentary stamp herein prescribed shall be based upon the actual consideration for the issuance of such shares of stocks. Provided further that in the case of stock dividends, or the actual value represented by each share.

Section 55 of Republic Act No 10963: New Rate of DST on all Debt Instruments (Documents, Loan Agreements, Instruments and Papers)

One peso and fifty centavos (₱1.50) on each two hundred pesos (₱ 200.00) or any fractional part thereof of the issue price of any such debt instrument. If the debt instrument has a maturity date of less than one (1) year, the DST due shall be computed based on the number of days the instrument is outstanding as a fraction of 365 days.

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2022, follow:

Taxes and Licenses

a. Local	
Business Permit	**₱579,993**
Real Property Tax	**115,922**
Others	**69,867**
b. National	
Percentage Tax	**5,264,184**
Documentary Stamp Tax	**-**
Annual Registration - BIR	**6,500**
Total-Taxes and Licenses	**₱6,036,466**

Withholding taxes in 2022 are categorized into:

Paid:	
Final withholding tax on interest expense	**₱1,632,085**
Withholding taxes on compensation and benefits	**546,800**
Expanded withholding tax	**1,154,110**
	₱3,332,995

Tax Assessments and Cases
As at December 31, 2022, the Bank has no outstanding assessment notice from the BIR or cases in court or bodies outside the BIR.

Revenue Regulation (RR) No 19-2011
The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2022:

Sale of Services
The Bank's taxable sale of services amounted to ₱166,286,713 and income subject to final income tax and are exempt from tax amounted to ₱31,055,159 for the year ended December 31, 2022.

Cost of Services

	2022
Details of the Bank's tax-deductible cost of services accounts are as follows:	
Direct Charges - Salaries and wages	**₱57,758,513**
Direct Charges - Insurance (PDIC)	**3,765,940**
Direct Charges – Supervision Fee	**451,849**
Direct Charges - Interest Expense	**8,957,991**
Interest expense	
Less: Limit (interest income subj. to final tax)	**(7,763,790)**
Total	**₱63,170,503**

Itemized Deductions

	2022
Miscellaneous	**₱ 19,707,934**
Rental	**11,810,172**
Depreciation and Amortization	**11,448,536**
Repair and Maintenance	**1,839,538**
Taxes and Licenses	**6,036,466**
Fines and Penalties	**974,287**
Security and Messengerial Services	**2,955,211**
Postage, Telephone, and Telegram	**2,601,682**
Documentary Stamps	**166,438**
Power, Light, and Water	**2,356,814**
Insurance expense	**1,869,017**
Stationery and Supplies	**1,330,248**
Fuel and Lubrication	**1,937,448**
Publicity and Advertisement	**2,030,905**
Fees and Commissions Expense	**1,438,429**

Management and Other Professional Fees	**484,973**
Litigation and Asset Acquired	**874,215**
Representation and Entertainment	**766,411**
Donation	**172,730**
Travelling	**216,385**
Membership Fees and Dues	**220,126**
Information Technology Expense	**595,632**
Bad Debts	**269,552**
Total	**₱ 72,103,149**

Total Deductible Expense	**₱ 135,273,652**
Expense Reported in Audited Financial Statements	**146,208,922**
Difference*	**₱ (10,935,270)**
**Reconciliation of Difference:*	
Interest Limit	**₱ 7,763,790**
Provision for credit losses	**205,769**
Non-deductible Interest Expense and Depreciation	**14,237,682**
Accounts written-off	**(269,552)**
Lease Payments	**(11,002,419)**
	₱10,935,270

29. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the MORB and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRS.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

Financial Performance

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

	2022	2021
A. Return on average equity (ROE)	**11.55%**	9.16%
B. Return on average assets (ROA)	**1.92%**	1.53%
C. Net interest margin	**6.35%**	8.09%
D. Debt to Equity Ratio	**5.10:1**	4.94:1

The Bank's ROE, ROA and Net Interest Margin Ratio as at December 31, 2022 and 2021 was computed as follows:

Return on average equity (ROE)

Formula: ROE = Net Income after Tax / Average Capital

		2022	2021
Net Income		**₱43,584,736**	₱31,868,751
Average Equity			
	2022	**391,004,397**	
	2021	**363,753,379**	
	2021		363,753,381
	2020		332,387,122
Total		**754,757,776**	696,140,503
Average Equity		**₱377,378,888**	₱348,070,252
Return on Average Equity		**11.55%**	9.16%

Return on average assets (ROA)

Formula: ROA = Net Income after Tax / Average of Total Assets

		2022	2021
Net Income		**₱43,584,736**	₱31,868,751
Average Assets			
	2022	**2,383,335,930**	
	2021	**2,159,860,565**	
	2021		2,159,860,565
	2020		1,992,492,219
Total		**4,543,196,495**	4,152,352,784
Average Assets		**₱2,271,598,248**	₱2,076,176,392
Return on Average Assets		**1.92%**	1.53%

Net Interest Margin Ratio

Formula: Net Interest Margin Ratio = Net Interest Income / Average Earning Assets

Formula: Average Earning Assets = Due from BSP + Due From Other Banks + Loans + Debt Securities Measured at Amortized Cost

		2022	2021
Net Interest Income		**₱131,833,340**	₱153,156,934
Average Interest Earnings Assets			
	2022	**2,203,703,790**	
	2021	**1,946,306,584**	
	2021		1,946,306,584
	2020		1,839,431,591
Total		**4,150,010,374**	3,785,738,175
Average Interest Earnings Assets		**₱2,075,005,187**	₱1,892,869,088
Net Interest Margin		**6.35%**	8.09%

Debt to Equity Ratio

Formula: Debt to Equity Ratio = Total Liabilities / Total Equity

	2022	2021
Total Liabilities	**₱1,992,331,534**	₱1,796,107,184
Total Equity	**₱391,004,396**	₱363,753,381
Debt to Equity Ratio	**5.10:1**	4.94:1

Capital Instruments

As of December 31, 2022 and 2021, the Bank share capital consist of:

	Shares*	Amount
Share Capital - ₱100 par value		
Authorized	3,500,000	₱350,000,000
Issued and outstanding		
Balance at the beginning and end of the year	2,519,305	₱251,930,500

**Absolute number of shares*

There are no capital instruments issued by the Bank in 2022 and 2021.

Significant credit exposures as to industry/economic sector

As of December 31, 2022 and 2021, information on the concentration of credit as to industry, net of unearned discounts and deferred credits, follows:

As to Concentration of Credits to Certain Industry/Economic Sector:

	2022	**%**	2021	%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycle	**₱ 72,746,883**	**5.90%**	₱88,654,444	7.02%
Construction	**14,867,795**	**1.20%**	21,151,927	1.68%
Real Estate Activities	**604,924,206**	**49.02%**	579,173,555	45.88%
Agriculture, Forestry, And Fishing	**48,036,948**	**3.89%**	37,349,793	2.96%
Household Consumption	**28,138,680**	**2.28%**	18,603,347	1.47%
Transportation and Storage	**16,952,578**	**1.37%**	27,078,399	2.15%
Electricity, Gas, Steam and Air Conditioning	**1,664,738**	**0.13%**	3,263,057	0.26%
Education	**1,035,733**	**0.08%**	1,739,551	0.14%
Manufacturing	**116,276,844**	**9.42%**	132,109,485	10.47%
Mining and Quarrying	**7,430,769**	**0.60%**	8,786,086	0.70%
Accommodation and food service activities	**224,811,560**	**18.22%**	231,005,860	18.30%
Administrative and support service activities	**1,991,412**	**0.16%**	3,978,157	0.32%
Human Health and Social work activities	**64,576,980**	**5.23%**	81,668,832	6.47%
Professional, Scientific and Technical Activities		**0.00%**	-	0.00%
Other service activities	**30,528,896**	**2.47%**	27,762,596	2.20%
Total	**₱1,233,984,023**	**100.00%**	₱1,262,325,089	100.00%

Percentage per tier 1 capital	**2022**	**%**	2021	%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycle	**₱72,746,883**	**18.56%**	₱88,654,444	24.71%
Construction	**14,867,795**	**3.79%**	21,151,927	5.90%
Real Estate Activities	**604,924,206**	**154.37%**	579,173,555	161.44%
Agriculture, Forestry, And Fishing	**48,036,948**	**12.26%**	37,349,793	10.41%
Household Consumption	**28,138,680**	**7.18%**	18,603,347	5.19%
Transportation and Storage	**16,952,578**	**4.33%**	27,078,399	7.55%
Electricity, Gas, Steam and Air Conditioning	**1,664,738**	**0.42%**	3,263,057	0.91%
Education	**1,035,733**	**0.26%**	1,739,551	0.48%
Manufacturing	**116,276,844**	**29.67%**	132,109,485	36.82%
Mining and Quarrying	**7,430,769**	**1.90%**	8,786,086	2.45%
Accommodation and food service activities	**224,811,560**	**57.37%**	231,005,860	64.39%
Administrative and support service activities	**1,991,412**	**0.51%**	3,978,157	1.11%
Human Health and Social work activities	**64,576,981**	**16.48%**	81,668,832	22.76%
Professional, Scientific and Technical Activities	**-**	**-**	-	-%
Other service activities	**30,528,896**	**7.79%**	27,762,596	7.74%
Total	**1,233,984,023**		₱1,262,325,089	

The BSP considers that significant credit exposures exists when total loan exposure to a particular economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital. As at December 31, 2021, one (1) of the industry is exceeding 30.0 percent of the total loan portfolio and six (6) industries exceeding 10.0 percent of the Bank's Tier 1 Capital.

As at December 31, 2022, one (1) of the industry is exceeding 30.0 percent of the total loan portfolio and six (6) industries exceeding 10.0 percent of the Bank's Tier 1 Capital.

The credit exposure of the bank to real estate activities was at 49.02% and 45.88% for the years 2022 and 2021 which is composed of subcategories in FRP. Also, the bank had already reviewed and reclassified loans accounts to their proper industry tagging in accordance with the Philippine Standard Industrial Classification (PSIC) in the year 2021. Further, the bank was also in the process of further reviewing its policy on concentration limits.

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2022 and 2021:

Classification *of loans: (Amount is gross of ACL and net of unamortized discounts)*

As to Maturity:

	2022	%	2021	%
Due within one (1) year	**₱22,152,242**	**1.80%**	₱40,446,540	3.20%
Due beyond one (1) year	**1,211,831,779**	**98.20%**	1,221,878,549	96.80%
Total Loan Portfolio	**₱1,233,984,021**	**100.00%**	₱1,262,325,089	100.00%

As to Security:

	2022	%	2021	%
Unsecured	**₱8,832,581**	**0.72%**	₱8,935,419	0.71%
Secured by real estate mortgage	**1,221,481,577**	**98.99%**	1,252,754,227	99.24%
Secured by other type of securities	**3,669,863**	**0.30%**	635,443	0.05%
Total Loan Portfolio	**₱1,233,984,021**	**100.00%**	₱1,262,325,089	100.00%

As to type of security:

	2022	2021
REM*	**₱1,221,481,577**	₱1,249,976,111
Chattel	**475,505**	139,522
Hold-out	**3,194,358**	3,274,037
Total	**₱1,225,151,440**	₱1,253,389,670

**amounts is net of unamortized interest discounts*

The following table shows the breakdown of receivable from customers net of unearned discounts and deferred credits as to performing and non-performing as of December 31, 2022 and 2021, *(Amount is net of unamortized discount)*

Loan Portfolio per Product Line - December 31, 2022	**Current**	**Performing**	**Non-Performing**	**Items in Litigation**	**Total**
Agrarian Reform and Other Agricultural Reform Loans					
Agrarian Reform Loans	₱ -	₱ -	₱ 6.00	₱ -	₱ 6
Other Agricultural Credit Loans	52,096,853	734,670	111,170	664,763	53,607,456
Microfinance Loans	10,379,933	-	2,241,157	-	12,621,090
Small and Medium Enterprises Loans					-
Small Enterprises	59,027,140	2,311,427	1,070,244	-	62,408,811
Medium Enterprises	228,303,079	6,646,350	22,335,798	-	257,285,227
Loans to Individuals for Housing Purposes	172,229,775	5,405,367	12,464,930	1	190,100,073
Loans to Private Corporation for Non-Financial Purposes	392,244,544	24,201,902	8,393,052	-	424,839,498
Loans to Individuals for Personal Purposes	27,271,294	292,243	534,544	40,598	28,138,679
Loans to Individuals for Other Purposes	191,786,001	7,900,166	4,542,395	754,619	204,983,181
Total	**₱1,133,338,619**	**₱ 47,492,125**	**₱51,693,296**	**₱1,459,981**	**₱1,233,984,021**

Loan Portfolio per Product Line - December 31, 2021	Current	Performing	Non-Performing	Items in Litigation	Total
Agrarian Reform and Other Agricultural Reform Loans					
Agrarian Reform Loans	₱ -	₱ -	₱ 6.00	₱ -	₱ 6
Other Agricultural Credit Loans	31,157,026	11,947,020	715,568	1,011,931	44,831,545
Microfinance Loans	9,849,849	268,770	936,489	-	11,055,108
Small and Medium Enterprises Loans					-
Small Enterprises	60,015,559	3,259,722	4,430,639	816433	68,522,353
Medium Enterprises	226,394,657	43,242,109	37,538,912	-	307,175,678
Loans to Individuals for Housing Purposes	145,449,600	3,021,003	14,063,514	910,212	163,444,329

Loans to Private Corporation for Non-Financial Purposes	437,163,534	4,984,156	25,509,627	-	467,657,317
Loans to Individuals for Personal Purposes	17,983,635	1,097,170	1,623,046	40,598	20,744,449
Loans to Individuals for Other Purposes	169,455,649	4,017,163	5,421,491	1	178,894,304
Total	**₱1,097,469,509**	**₱ 71,837,113**	**₱90,239,292**	**₱2,779,175**	**₱1,262,325,089**

Information on related party loans

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending Bank within the Bank.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2022 and 2021, the Bank is in compliance with the regulatory requirements.

Below are the selected ratios relative to the Banks' DOSRI and Related Party loan accounts.

2022	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	**₱2,759,235**	**₱21,554,105**
A.2. Total Loan Portfolio	**1,233,984,021**	**1,233,984,021**
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**0.22%**	**1.75%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	**-**	**-**
Total DOSRI/RP Loan	**2,759,235**	**21,554,105**
	0.00%	**0.00%**
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	**-**	**-**
Total DOSRI/RP Loan	**2,759,235**	**21,554,105**
	0.00%	**0.00%**
E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	**-**	**-**
Total DOSRI/RP Loan	**2,759,235**	**21,554,105**
	0.00%	**0.00%**

2021	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	₱635,443	₱10,017,703
A.2. Total Loan Portfolio	1,262,325,089	1,262,325,089
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	0.05%	0.79%
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	-	-
Total DOSRI/RP Loan	635,443	10,017,703
	0.00%	0.00%
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	-	-
Total DOSRI/RP Loan	635,443	10,017,703
	0.00%	0.00%
E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	-	-
Total DOSRI/RP Loan	635,443	10,017,703
	0.00%	0.00%

The term of the related party loans ranges from one (1) to ten (10) years. Payment of the principal amount and interest is made on a monthly basis. The related parties are siblings of the directors, officers, and/or stockholders.

The Bank monitors its RPTs using the Bank's materiality threshold and limits. The sublimit per related parties and per family group of each director, officer, and stockholder is ₱100M and ₱12.5M per family group of each DOS, respectively. As of December 31, 2022 and 2021, The Bank is in compliant with the maximum aggregate amount and sub-limit that was set by the Bank.

Other Related Party:

2022

Name of Related Party	Amount of Transaction	Amount Paid	Outstanding Balance
Priser Trading Corporation	₱8,393,665	₱8,393,665	₱-
B and H Fuel Bar	835,603	835,603	-
Total	**₱9,229,268**	**₱9,229,268**	**₱-**

2021

Name of Related Party	Amount of Transaction	Amount Paid	Outstanding Balance
Priser Trading Corporation	₱7,630,604	₱7,630,604	₱-
Total	**₱7,630,604**	**₱7,630,604**	**₱-**

Aggregate amount of secured liabilities and assets pledged as security

As of December 31, 2022 and 2021, the Bank has no secured liabilities and assets pledged.

Commitments and contingent liabilities

a.) The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. The amount of loans and receivables under litigation amounted to ₱1,463,671 and ₱2,791,423 as at December 31, 2022 and 2021, respectively.

b.) The Bank has no pending legal cases arising from its normal operation that will put the bank as defendant as a result of violation of transactions against its clients/ depositors.

c.) The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the bank into obligation in case of non-compliance by the buyer.

d.) The Bank has no contingent accounts for the years ended December 31, 2022 and 2021.

OUR BRANCHES

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