Cebuana Lhuillier Rural Bank, Inc.
2022 Annual Report

1. Corporate Policy

a. Bank's Mission, Vision and Purpose Statement

MISSION

We offer an inclusive financial ecosystem that enables Filipinos to fulfill their needs.

VISION

To be the top financial inclusion enabler for Filipinos.

PURPOSE

We believe that we can be instrumental to Filipinos in achieving their financial aspirations.

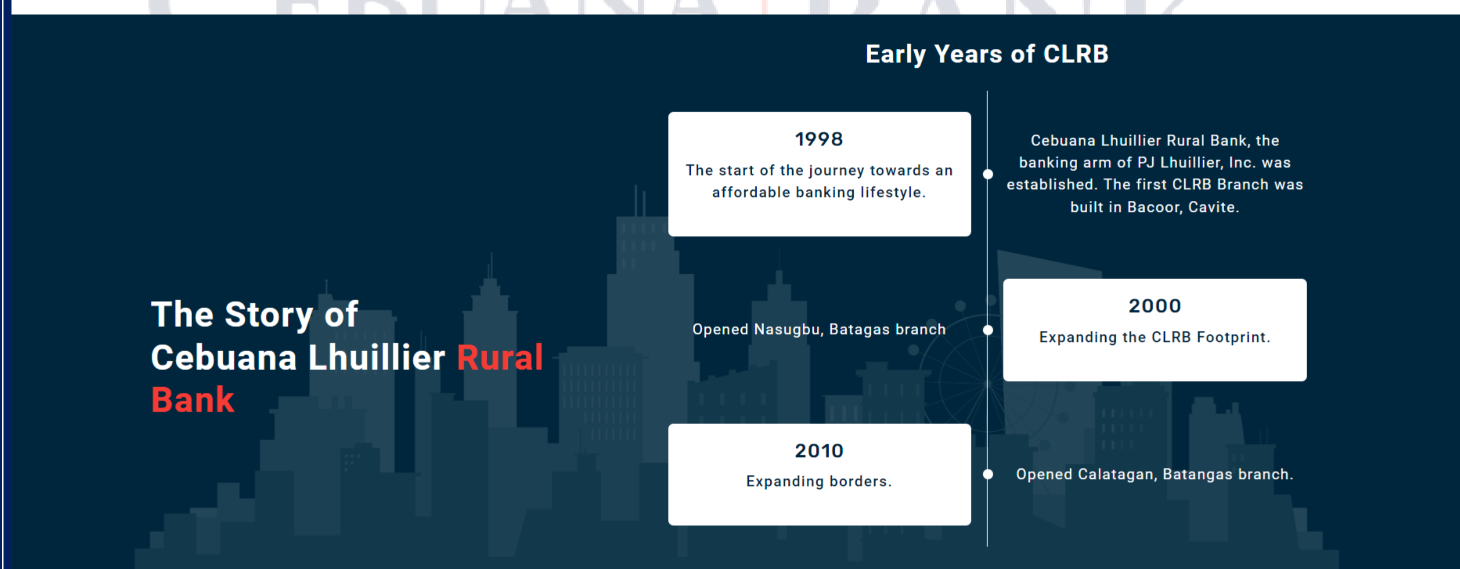
b. Brief Background, History and Achievements

Cebuana Lhuillier Rural Bank (CLRB) was established in June 1998 as the banking arm of PJ Lhuillier, Inc. Regulated by the Bangko Sentral ng Pilipinas, the Bank continues to serve the underserved Filipinos through its affordable and accessible banking transactions.

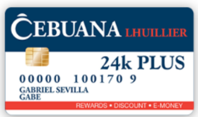
The Bank offers products, from savings, which cater to micro, small, and medium clients to loans which provide clients an array of facilities that they can apply to. A variety of other services offered are bills payment, load top-up, and money transfer.

Geared towards financial inclusion, CLRB has already established five (5) branches in the Philippines, with plans of increasing its footprint nationwide. The Bank is now widening its reach through its cash agent Cebuana Lhuillier with almost 3,000 branches and 20,000 partner outlets to make way for greater connectivity and accessibility.

The Bank is poised to achieving an ecosystem that empowers Filipino towards an affordable banking lifestyle. CLRB plans to overcome barriers to saving by educating, encouraging, and providing banking access to more of the unbanked and underbanked segment.

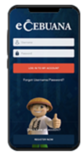


2019
Revolutionizing the Financial Landscape



February 2019

Cebuana Lhuillier Micro Savings was launched to empower Filipinos to save for their future.



March 2019

Launch of the eCebuana mobile app.

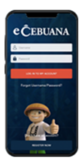
May-December 2019

May: 1M Filipinos are now unbanked
September: 2M Filipinos are now unbanked
December: 3M Filipinos are now unbanked

December 2019

Top 8 Rural Bank: BSP Ranking based on total Deposit liabilities as of December 31, 2019. The Cebuana Lhuillier Rural Bank branch in Makati was opened.

2020-2021
Claiming Greater Heights



April 2020

Launch of the eCebuana Mobile App version 2.0 with enhanced features.

July 2020

4 Million Filipinos are now unbanked.

December 2020

Launch of 24K Debit card and partnership with BancNet and UnionPay for ATM and cashless payment features

March 2021

5 million Micro Saving account holder

c. Introduction of the Bank's Brand

Cebuana Lhuillier Rural Bank Inc. ("CLRB" or the "Bank") was incorporated in the Philippines on February 19, 1998, to engage in the business of banking authorized under Republic Act (RA) 7353, otherwise known as "Rural Banks Act" of 1992 and RA 8791, otherwise known as the "General Banking Law" of 2000 and other allied laws. The Bank operates as a Rural Bank providing services such as deposit-taking, loans and trade finance, and microfinance services under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP). The Bank was registered with the BSP on May 25, 1998, to operate as a Rural Bank.

The Bank's registered office address, which is also its principal place of business, is located at PJ Lhuillier Inc. Bldg., 160 Zapote Road, Zapote I, Bacoor City, Cavite.

As of December 31, 2022, the number of bank branches had increased from three to five. These additional branches comprise the Cebu City Branch, which commenced operations on April 18, 2022, and is conveniently situated at PJL Corporate Center II, #6 Acacia St., Brgy. Kamputhaw, Cebu City. Furthermore, the Davao City Branch, established on October 21, 2022, is conveniently located at 147 McArthur Highway cor. Juna Avenue, Juna Subdivision, Brgy. Matina, Talomo District, Davao City. It is noteworthy that the Calatagan Branch, Jupiter Branch, and Bacoor Branch (serving as the Main Office Branch) continue to function as existing branches. In addition to these, the Bank currently operates two branch lite units, with one situated in Imus and the other in Nasugbu. The branch lite unit in Nasugbu will be relocated to a more strategically advantageous location at NF1 Savemore Market J.P. Laurel St., Brgy. Poblacion Nasugbu, Batangas, during the first quarter of 2023. Moreover, the head office is scheduled to be relocated to its new premises at PJL Building Gen. Evangelista cor. Emilio Aguinaldo Highway, Barangay Zapote I, Bacoor, Cavite, in the second quarter of 2023.

Determined to build progress and development, primarily in the rural community, the Bank aims to deliver products and services with efficiency and dedication to its clients.

The Bank offers products from savings, which cater to micro, small and medium clients – to loans that provide an array of facilities that they can avail of.

The Bank accepts certificate of time deposits, special savings deposits, regular savings deposits, and micro-savings deposits. It also accepts regular demand deposits and non-interest-earning checking accounts with passbook.

Various loans are offered, including consumer loans such as employee salary loans, teachers' loans, motorcycle loans, and housing loans as well as business loans like microfinance, SME loans, corporate loans, and agriculture loans.

d. Business Model of the Bank

The Bank's business model is driven by the target market's financial services needs as summarized in the table below showing the Bank's products and services and the corresponding target market:

A. Deposit Products	***Site of Product Availability***	***Target***
1. Regular Savings Account	Head Office Branches Branch-lite Units	Individual Pensioner Microfinance clients MSMEs Salary Loan Clients
2. Micro Savings Account (Basic Deposit Product)	Head Office Branches Branch-lite Units Cash Agent – Cebuana Pawnshop	Individual Microfinance clients Filipino, age 7 yrs old and above, with minimal or no access to the full banking Operations
3. Special Savings Deposit	Head Office Branches	Individuals and juridical Entities
4. Time Deposit		
5. Checking Account		Individuals MSMEs Corporate Clients
B. Loan Products		***Target***
Consumer Loans		
1. Teachers Loan	Branch-Lite Units Branches	Teaching and Non-Teaching Personnel of DepEd
2. Motorcycle Loan	Branches Head Office	Individuals
3. Developer-Generated Housing Loan	Head Office	Homeowners from Real Estate Developers
4. Home Loan Direct	Branches Head Office	Individual
5. Employee Salary Loan	Head Office	Cebuana Lhuillier Group Officers and Employees
Business Loan		
1. Microfinance Loan	Branch-Lite Units Branches Head Office	Micro Entrepreneurs
2. SME Loans	Branches Head office	Small and Medium-Sized Enterprises
3. Agri-Agra Loan	Branches Head Office	Enterprises within the Value Chain of Agriculture Sector
4. Multi-Purpose Loan	Branches Head Office	Individuals, or Small and Medium-Sized Enterprises

C. Digital Products	Site of Product Availability	Target
1. E-Money Cash-In, Cash-Out	Outsourced to PJLI Group	Individuals
2. Instapay and PesoNet	Electronic Channel	Individuals Corporate Clients
3. ATM Services	Head Office Branch	Individuals Microfinance clients

2. Financial Summary/ Financial Highlights

	2022	2021
Profitability		
Total Net Interest Income	**219,942,053**	**146,700,131**
Total Non-interest Income	**215,027,795**	**219,452,625**
Total Non-interest Expense	**347,312,682**	**286,581,782**
Provision for Credit Losses	**16,042,650**	**23,619,768**
Net Income	**51,917,133**	**36,841,355**
Total Comprehensive Income	**49,526,942**	**36,831,399**
Selected Balance Sheet Data		
Liquid Assets	**1,112,330,813**	**480,357,682**
Gross Loans	**1,594,802,963**	**895,873,984**
Total Assets	**6,350,702,666**	**5,421,555,664**
Deposits	**5,687,430,244**	**4,976,874,479**
Total Equity	**390,832,534**	**341,305,592**
Selected Ratios		
Return on Equity	**14.18%**	**13.5%**
Return on Assets	**0.88%**	**0.73%**
Capital Adequacy Ratio	**14.14%**	**22.97%**
Headcount		
Officers	**30**	**18**
Staff	**185**	**93**

3. Financial Condition and Results of Operation

a. Review of the Bank's Operations and Results of Operations for the Financial Year

The Bank's total assets rose by 17% to Php 6.4 Billion, gross loans increased by 74% to Php 1.6 Billion, deposits increased by 14% to Php 5.7 Billion, and other liabilities increased by 164% to Php 272.4 Million. Equity grew by 15% to Php 390.8 Million.

The increase in total assets of the Bank is brought about by the inflows of funds from the deposit portfolio which increased by 14% from Php 5.0 Billion in 2021 to Php 5.7 Billion in 2022, or a Php 710.6 Million increase in funding from deposits.

The net inflows from the deposit portfolio in 2022 were primarily utilized to finance the expansion of the loan portfolio. The Bank's gross loans increased by 74%, rising from Php 895.9 Million in 2021 to Php 1.6 Billion in 2022, reflecting a Php 698.9 Million increase in the gross loan portfolio. The significant contributors to this increase were the teachers' salary loan, a new product launched by the Bank in 2022, with a total loan portfolio amounting to Php 472.7 Million by year-end. Housing loans followed with a 59% increase, equivalent to Php 192.3 Million.

Other significant movements in the total assets of the Bank included the following: 1) Due From BSP, which increased by 284% or Php439.1 Million; 2) Due From Other Banks, which increased by 58% or Php182.1 Million; and 3) Investment Securities, which decreased by 12% or Php446.0 Million. The Bank matured some of its investments in 2022 to finance the funding for Due from BSP and Due From Other Banks for ATM and online mobile banking transactions (pesonet and instapay) as well as loan disbursement.

On the deposit portfolio, the increase of 14% or Php710.6 Million was primarily attributed to the growth of the Bank's MicroSavings product, which was later upgraded to Regular Savings for eligible accounts. This expansion has resulted in a continued rise in the number of depositors and an increase in the amount of deposits placed.

Regarding other liabilities, there was a significant increase of 164%, from Php103.4 Million in 2021 to Php272.4 Million in 2022, representing a Php169.1 Million increment. This surge was primarily driven by the funds payable to BancNet for ATM and online mobile banking transactions (pesonet and instapay) made during the year-end cut-off period (December 29, 30, and 31). These transactions were debited from the Bank's funding account on the next banking day of the succeeding year (January 03).

The Bank's equity growth was primarily fueled by its operational performance in 2022, which yielded a total comprehensive income of Php49.5 Million. Consequently, the Bank's total equity increased by 15%, rising from Php341.3 Million in 2021 to Php390.8 Million in 2022.

In terms of profitability, the Bank observed a 50% increase in total net interest income, amounting to Php219.9 Million. However, there was a slight decline of 2% in total non-interest income, decreasing from Php219.5 Million in 2021 to Php215.0 Million in 2022. Meanwhile, total non-interest expenses rose by 21% to Php347.3 Million, reflecting the Bank's focus on capacity building as it launched and expanded products both in the traditional and digital platforms. Overall, the Bank's total comprehensive income increased by 34% to Php49.5 Million.

The primary revenue source contributing to the positive operational outcome was the Bank's interest income from loans and investments, which experienced a 41% increase from Php172.2 Million in 2021 to Php242.3 Million in 2022. Specifically, interest income from loans rose by 52%, reaching Php151.4 Million in 2022, aligning with the sustained significant growth of the Bank's gross loan portfolio over the past four years.

Regarding non-interest expenses, the 21% increase from Php286.6 Million to Php347.3 Million was primarily driven by factors such as salaries and benefits (increased by 60% or Php36.3 Million), depreciation and amortization (increased by 35% or Php21.4 Million), advertising and promotion (increased by 26% or Php15.9 Million), utilities (increased by 9% or Php5.2 Million), and membership dues (increased by 7% or Php4.2 Million), among others. However, there was a decline in card costs and commissions, which decreased by 42% or Php51.3 Million.

b. Highlight of Major Activities during the year that impact Operations

The Bank has maintained its dedication to extending its reach beyond the confines of rural banking. With a focus on its Brick-Tech model, which combines technology with physical branches and cash agency partner branches, the Bank has successfully expanded its client base and made financial services accessible both online and offline.

Driven by this model, the Bank expanded its coverage to over 3,000 branches nationwide in 2022 through Cash Agency Banking. In addition, it continuously improved its flagship Mobile Banking App, eCebuana, which aims to provide banking services at customers' fingertips. In 2022, the total transaction count on eCebuana increased by 58%, totaling 4.1 million transactions, with a transaction value of PHP 15 billion.

To fulfill its commitment to improving services for millions of Filipinos, the Bank forged partnerships with prominent financial services corporations such as BancNet and UnionPay in 2021. These collaborations resulted in significant achievements for the Bank. In 2022, the Bank was recognized as the Top UnionPay International Issuer for Debit Cards in the Philippines and ranked among the Top 12 Debit Card issuers of BancNet.

Furthermore, in 2022, the Bank became a principal member of VISA as an issuer. This partnership grants the Bank access to VISA's extensive payment network spanning over 200 countries and territories worldwide. As a result, clients can enjoy a wider range of payment options, both domestically and internationally.

In addition to these strategic partnerships, the Bank expanded its online fund transfer capabilities by partnering with InstaPay and PESONet in 2021. In 2022, InstaPay transactions increased by 40%, reaching 2.1 million, while settlement values climbed by 54% to PHP 11.4 billion. These developments have positioned the Bank as a top performer, ranking 24th out of 63 and 19th out of 73 in the Sending and Receiving transfer categories, respectively.

The Bank also positioned itself as an early adopter of QR technology in the Philippines, participating in the pilot launch of QR PH in 2022 under the guidance of the Bangko Sentral ng Pilipinas (BSP). QR PH brought together participants from the banking and payment industry to establish efficient payment processes. Through the eCebuana app, the availability of QR codes enhanced the ease and security of money transfers and retail payments. Moreover, CLB account holders can now utilize the universal QR PH to make payments at all Bank-accredited merchants.

With a steadfast commitment to empower unbanked and underserved communities through financial inclusion, the Bank has actively pursued its financial literacy campaign called "Iponaryo" in partnership with Cebuana Lhuillier. Collaborating closely with local government units, non-governmental organizations, and educational institutions, the Iponaryo movement has remained at the forefront of the Bank's evolving identity as one of the Philippines' most innovative local banks.

In 2022, the Bank set out to visit remote provinces and educate Filipinos on the importance of saving for the future, promoting its groundbreaking Basic Deposit Account (BDA) known as Cebuana Micro Savings. This initiative has successfully reached over 6.4 million Micro Savings Account (MSA) holders, capturing over 40% of the total BDA market share in the Philippines. Achieving this milestone is a significant step towards the Bank's ultimate goal of becoming the leading provider of BDAs (The "King" of BDA) in the country and the premier financial service provider for unbanked and underserved Filipinos.

c. Major Strategic Initiatives of the Bank

Aligned with the Bank's objective of promoting financial inclusion for the underserved, its strategic initiatives focus on connectivity, expansion, and growth in the loan portfolio. The successful launch of the eCebuana mobile app has provided an alternative channel for accessing the Bank's services. To ensure easy access and usability, the Bank has incorporated various electronic banking facilities such as Instapay, Pesonet, Bancnet membership, ATM, and mobile banking into its strategic business plan. Additionally, the Bank has opened new branches in Cebu City and Davao City and plans to expand to additional locations including Angeles City, Dumaguete City, and General Santos City, aiming to serve a larger mass market segment and extend its reach to more Filipinos.

The Bank's Product Team has been established to focus on product bundling and enhancements to existing loan programs, with the goal of extending its offerings to the C and D markets. In support of the roll-out of ATM services and other digital banking products, the Transaction Banking Operations Department has been set up towards the end of Q3.

The Bank takes pride in its position as a leading provider of financial services, particularly in rural communities. The Teachers Loan program, launched on March 14, 2022, surpassed its initial target and achieved nearly a five-fold increase by the end of the year. This program has been instrumental in providing financial assistance to teachers, especially in rural areas such as Calatagan and Nasugbu Batangas, enabling them to achieve their financial goals and improve their overall quality of life. Additionally, the Bank has expanded the reach of the Teachers Loan program to include Cebu and plans to offer the program in the Davao Region in 2023, further extending its support to teachers in the region.

Furthermore, the Bank is committed to promoting financial inclusivity through its Motorcycle Loan program. Through partnerships with various Motorcycle Dealership Companies, the Bank has expanded its reach to a wider range of areas, allowing more eligible buyers to purchase brand new two-wheeled motor vehicles through the Bank's financing facility. The Bank offers flexible loan options to cater to the specific needs of buyers, whether they are interested in regular Japanese brands, medium bike segment, or big bike segment motor vehicles. Streamlining its processes, the Bank strives for faster approval and convenient release of motor vehicles to the buyers.

The Business Loan and Housing Loan programs have also exceeded expectations, surpassing 100% of their targets. This remarkable achievement demonstrates the Bank's steadfast commitment to providing strong financial assistance to individuals and businesses, empowering them to achieve their financial objectives and contribute to the growth and development of their communities. In line with this commitment, the Bank is actively expanding its network of real estate partner developers to enhance its capacity to serve homeowners in need of financial support.

CEBUANA LHUILLIER | A RURAL BANK

Banking arm of PJ Lhuillier Group established in 1998.

With more than 20 years experience in consumer banking, CLRB provides opportunities to empower micro, small and medium enterprises to grow and prosper as we aim to deliver products and services with efficiency and dedication to our clients.

1998	Bacoor, Cavite
2010	Calatagan, Batangas
2012	Imus, Cavite Nasugbu, Batangas
2019	Jupiter, Makati
2022	Cebu City, Cebu (April 2022) Matina, Davao (December 2022)

d. Challenges, Opportunities, and Responses during the years, if any

For the past twenty years, the Bank just focused on acquiring customers for its deposit products, particularly on savings and time deposits. Loans were concentrated on salary loans for employees within the PJL group of companies. Credit policies and procedures were in place but required continuous updating and enhancements.

While the focus is to introduce new products and services, management is continuously committed to investing its resources in building staff capability, creating a mindset of customer-centricity, and having an agile way of thinking, managing, and processing.

Corporate governance is also strengthened to ensure management oversight. With the continuous drive to increase the loan portfolio, continuous growth in deposit base, and implementation of digital initiatives, the Bank has invested in the core banking system which shall serve as a platform and support to various risk management systems. Additional key officers joined the Bank in 2022 to further build up the organization and its management. Staff and officers are periodically sent to training to improve their current functions aligned to the Bank's development and business plans. As processes are continuously being streamlined, the opportunity to automate continued to potentially gain benefits through FTE savings, cost-reduction, increased productivity, and increase in sales.

The Bank joined the BSP's effort to strengthen customer protection against fraudulent schemes by setting up its own Fraud Management Department (FMD). The Enterprise Fraud Risk Management Framework approved and implemented in 2022 along with the acquisition of Fraud Management System (FMS) – the fraud tool of the Bank to detect fraud in real-time.

Impact of COVID-19 Pandemic on Bank's Business

The most recent event that greatly impacted the Bank, and most businesses in the country, was the outbreak of the COVID-19 pandemic which became widespread in early 2020. As a result, the Bank had to scale down its operations due to mobility restrictions, business units were operating at less than full capacity, and additional administrative expenses were incurred to ensure the health and safety of the employees and customers. Initiatives such as the frequent disinfection of facilities and COVID-19 testing for the employees were regularly conducted. From these challenges, the Bank took the opportunity to accelerate digital solutions aligned with its projects and digital initiatives. Also, the Bank intensified its promotional and marketing strategies, ensured cash availability in branches and cash handling facilities worked continuously to mobilize cash, introduced new loan products to expand the Bank's loan portfolio, implemented stricter credit evaluations for borrowers belonging to severely hit industries, implemented new occupational safety and health standards to provide a safe and sanitized environment for both customers and employees through the strict observance of health and safety protocols, retrofitting of work spaces, periodic testing for employees and to minimize infection within the workplace.

More than further improvements made to its roster of financial services, the bank's continuous commitment to push for financial inclusion and financial mobility has earned the attention and respect of the local banking industry, along with the Bangko Sentral ng Pilipinas (BSP). Cebuana Lhuillier Rural Bank is one of the current and strongest proponents of financial inclusion in the Philippines and has served on the advisory board of the BSP. Currently, it has participated in the QR PH program and is slowly pushing for QR integration in all of its products and services.

Ranking as to Total Assets
Rural and Cooperative Bank Group
As of 31 December 2022
(Amounts in Million Pesos)

RANK	NAME OF BANK	TOTAL ASSETS
1	BDO NETWORK BANK INC	87,679.80
2	EAST WEST RURAL BANK INC	24,282.73
3	CARD BANK INC (A MF RB)	22,272.76
4	SEABANK PHILIPPINES INC (A RURAL BANK)	12,237.80
5	TONIK DIGITAL BANK INC	10,579.10
6	GUAGUA RURAL BANK INC	7,596.00
7	CEBUANA LHUILLIER RB INC	6,297.43
8	CARD MRI RIZAL BANK INC A MICROFINANCE-ORIENTED RURAL BANK	6,175.85
9	FIRST ISABELA COOP BANK (FICOBANK)	5,513.43

https://www.bsp.gov.ph/Statistics/Financial%20Statements/Rural/assets.aspx
No. 7 Rural Bank as to Total Assets

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Ranking as to Total Deposit Liabilities
Rural and Cooperative Bank Group
As of 31 December 2022
(Amounts in Million Pesos)

RANK	NAME OF BANK	TOTAL DEPOSITS
1	BDO NETWORK BANK INC	66,983.20
2	EAST WEST RURAL BANK INC	15,888.35
3	CARD BANK INC (A MF RB)	14,890.99
4	SEABANK PHILIPPINES INC (A RURAL BANK)	10,768.75
5	TONIK DIGITAL BANK INC	8,120.21
6	GUAGUA RURAL BANK INC	5,859.75
7	CEBUANA LHUILLIER RB INC	5,687.43
8	CARD MRI RIZAL BANK INC A MICROFINANCE-ORIENTED RURAL BANK	4,068.47
9	BOF INC (A RURAL BANK)	3,726.49

https://www.bsp.gov.ph/Statistics/Financial%20Statements/Rural/deposit.aspx
No. 7 Rural Bank as to Total Deposit Liabilities

4. Financial Results of Business Segments (for complex banks) (N/A)

a. **Summary of Financial Performance of the Business Segment**
b. **Contribution of Each Major Business Segment to the Total Revenue of the Bank**
c. **Significant Developments during the year including Major Activities**
d. **Future Plans/ Target/ Objective**

5. Risk Management Framework Adopted

The Bank's adopted risk management framework, aligned with BSP Circular No. 971, seeks to ensure that there is an effective process in place to manage risk across the Bank. It aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the Board of Directors (BOD).

The Risk Management program is driven by a formal approach and aligned with the organization's profile and strategic objectives, through formalizing roles within the organization, active committees, policies and procedures, reporting, communication, and technology. This program also produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities are implemented to 1) strengthen the organization, 2) reduce the potential for unexpected losses, and 3) manage the volatility experienced by the Bank. Policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the BOD for approval.

a. Overall Risk Management Culture and Philosophy

Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, put in place appropriate controls, and monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

The Bank's risk management approach reflects its values, influences the culture, and guides its operations, as such, is captured in policy statements, Board and management directives, operation procedures, and training programs, and is demonstrated in daily activities by management and staff. The Bank's Risk Management Framework consists of structured and consistent risk management processes that are applied across the organization under the following principles:

i. The Bank is in the business of taking risks and therefore, risk must be managed and controlled if it is measured consistently and accurately.
ii. The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for its safe and sound operation.
iii. The Risk Management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual with the Bank has their respective role and must participate in the process.
iv. The Bank shall promote a culture of risk awareness aligned with the expectation of the Bank's regulatory supervisors.
v. All the bank's activities shall be following applicable legal and regulatory provisions of the Philippines as well as the Bank's internal policies and procedures.
vi. Policies and practices that generate incentives for inappropriate actions shall be avoided. These include, but are not limited to over-emphasis on short-term performance results that ignore long-term risks, ineffective segregation of duties that allow misuse of assets or concealment of poor results, etc.
vii. It is the Bank's firm policy that liquidity will never be compromised for profitability.

b. Risk Appetite and Strategy

The Bank faces a broad range of risks doing business as a financial intermediary. These risks include its day-to-day operational activities which can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high-quality staff, and accountability. In terms of operational issues, the Bank has a low appetite for risk. The Bank makes resources available to control operational risks to acceptable levels. The Bank recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risks is often necessary to foster innovation within business practices.

The Bank's "Risk Appetite Statement" considers the most significant risk to which the Bank is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas must be consistent with this Statement. The Risk Appetite Statement is treated as a live and evolving document where its intent is challenged and discussed frequently.

i. **Strategic Risk.** The Bank aspires to be among the country's top rural banks measured by asset size. This requires ongoing development and innovation in its operations through strategic planning. The Bank has a low appetite for threats to the effective and efficient delivery of its strategic plan. It recognizes that the actual or perceived inability to deliver a strategic plan could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's BOD meets regularly to discuss actual performance vis-à-vis the plan. A framework is in place to ensure the Bank's strategic plan is managed and reported regularly.

ii. **Market Risk.** The Bank's exposure to market risk is the potential diminution of earnings arising from the movement of market interest rates as well as the potential loss of market value, primarily of its holdings of debt securities and derivatives, due to price fluctuation. The market risk relevant to the Bank is interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates due from BSP and other banks and deposit liabilities that are subject to variable interest rates. The volatility in the interest rates of these financial instruments will result in an increase or decrease in the Bank's interest spread and consequently will affect its financial performance. The Bank follows a prudent policy on managing its resources and liabilities. That is to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. Market interest rates review is done every month to ensure that the interest rate offers on Bank products are competitive and within the industry rate. Whereas on investment-taking activities, limits are established to closely monitor and maintain exposures within approved position limits and to remain compliant with regulatory standards.

iii. **Liquidity Risks.** The Bank has a very low appetite for liquidity risks because these have a significant impact on the Bank's reputation. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise. The Bank uses Maximum Cumulative Outflow (MCO) model to measure liquidity risk arising from assets and liabilities mismatch. Stress testing scenarios are administered to enable the Bank to gauge its liquidity capacity given certain scenarios. It also aims to identify the level of magnitude and its impact on the operations should the Bank implement necessary action plans to cover necessary liquidity funding from the stress scenario.

iv. **Credit Risks.** Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e. strategic level, portfolio level down to individual transaction or account level. The Bank has a low appetite for credit risks. The risk tolerance of the Bank's credit activities is approved by the BOD; wherein performance against set measures is monitored and reported to the BOD and Senior Management every month. The following tools, among others, are used in identifying, assessing, and managing credit risk:

- Established credit policies, asset allocations, and concentration limits, collateral acceptance criteria, target market, and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;
- Periodic monitoring of individual account performance;
- Regular review of the adequacy of valuation reserves;
- Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size, and maturity; monitoring portfolio growth, collection performance and delinquency trends, the trend of non-performing loans, concentration risk, and other performance indicators; and,
- Close monitoring of remedial accounts.

The Bank observes a system of checks and balances before extending a loan and undergoes a series of level approvals in accordance to set limits and thresholds (Credit Committee, Risk Oversight Committee, Board of Directors level). The loan portfolio growth is assessed using key performance indicators.

The Bank uses credit scoring models, decision systems, and borrower risk ratings as may apply to its loan products. Excessive concentration of lending poses an undue risk to the Bank's asset quality. The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk. To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforces a stringent policy on credit evaluation, review, and monitoring. The Bank monitors concentrations of credit risk by sector.

v. **People and Culture Risks.** Identified people and culture-related risks include the following:

- *The Caliber of People* – The Bank relies on motivated and high-quality staff to perform its functions. It aims to create an environment where the employees are empowered to the full extent of their abilities. The appetite for losses to the value of the Bank's collective competencies,knowledge, and skill is very low.
- *Conduct of People* – The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the best interest of the public. The appetite for such standard behaviors not being met is very low. The Bank deals seriously with any breaches of its Code of Conduct.
- *Work Health & Safety (WHS)* – The Bank aims to create a safe working environment for its entire staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviors that lead to staff being harmed while at work.

vi. **Operational Risks.** The Bank's appetite for specific operational risks is detailed below. Risks are carefully analyzed in all the Bank's operational activities to ensure that the benefit of the risk control measures exceeds the costs of these measures.

- *Information Technology (IT) risks* cover both daily operations and ongoing enhancements of the Bank's IT systems. These include:

    1. *Processing – Prolonged outage of the Bank's Core System.* The Bank has a very low appetite for risks to the availability of systems that support its critical business functions including those which relate to inter-bank settlements, banking operations, and financial markets operations. Maximum recovery times have been identified and agreed upon with each business area.

2. *Information Security – Cyber-attack on Bank's systems or networks*. The Bank has a very low appetite for threats to Bank assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the development of robust technology solutions.

3. *On-going Development* – The implementation of new technologies creates new opportunities, but the same goes for risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices.

- *Fraud and Corruption.* The Bank takes all allegations of suspected fraud and/or corruption very seriously and responds fully and fairly as set out in its Code of Conduct.

- *Physical Security.* The Bank strives to provide a highly-secure environment for its people and assets by ensuring that its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measures.

- *Compliance.* The Bank is committed to a high level of compliance with relevant laws, regulations, industry codes, and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance are remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of law or regulatory requirements.

- *Information Management.* The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved, and managed following regulatory and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management, and publication. The Bank has no appetite for the deliberate misuse of its information.

c. **Bank-wide Risk Governance Structure and Risk Management Process**

The Bank is exposed to risks with its operating, investing, and financing activities, and the business environment in which it operates. The Bank's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems that are established to address these risks. The Bank's risk management framework, aligned with BSP Circular No. 971 series of 2017, seeks to ensure that there is an effective process in place to manage risk across the Bank. The COVID-19 global pandemic catalyzed to re-strengthen the risk management process among businesses, it is considered among the key to business survival. The Bank's overall risk management strategy and oversight function are handled by the:

i. Board of Directors. The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end view of effectively managing all risks in its activities. The policies to be formulated include, but are not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal controls.

ii. President. The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

iii. Risk Oversight Committee. The Risk Oversight Committee is responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. The members of the committee are knowledgeable of the Bank's risk exposures which enables them to develop necessary strategies that would prevent or minimize the impact of losses.

iv. Credit Committee. A committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Operations Head and the President pass through this committee for final approval. Credit proposals beyond its limits are escalated to the Risk Oversight Committee for endorsement to the BOD for final approval.

Risk Reporting Structure:

d. Anti-Money Laundering Governance and Culture

The Bank has adopted a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) geared toward the promotion of high ethical and professional standards and the prevention of the Bank being used, intentionally or unintentionally for money laundering/terrorist financing activities aligned with the Anti-Money Laundering and Countering the Financing of Terrorism rules and regulations of the AMLC and the BSP. The Bank shall adopt and implement a sound MTPP that identifies, assesses monitors, mitigates, and controls risks associated with ML/TF such as counter-party, reputational, operational, and compliance risks to ensure that the Bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism. It shall be the ultimate responsibility of the Board of Directors to fully comply with the AML/CFT rules. The BOD shall set the tone of good governance and culture to ensure that ML/TF risks are effectively managed. The Audit Committee of the Board shall have direct oversight of the management of ML/TF risks. Senior Management shall oversee the day-to-day management of the Bank and ensure effective implementation of MTPP policies approved by the Board's Audit Committee and alignment of activities with the strategic objectives, risk profile, and corporate values set by the BOD. To help Senior Management with its day-to-day management of AML risks, the Bank shall adopt the three lines of defense model: (1) Business Units and Branches; (2) Compliance Office; (3) Internal Audit. All employees of the Bank are enjoined to be vigilant in the fight against ML/TF.

To meet the needs of the regulatory requirements of the BSP Circular 706 and AMLC Reporting Procedures, and any subsequent regulatory updates, the Bank acquired an AML Solution (i360 System) and currently in the developmental process.

6. Corporate Governance

This section comprehensively discusses the Bank's corporate governance framework and adopted corporate culture.

a. Overall Corporate Governance Structure and Practices

Board of Directors

The BOD is the highest authority in the matters of governance and managing the business of the Bank. The directors hold their office charged with the duty to exercise sound and objective judgments for the best interest of the Bank. The BOD is responsible to promote and adhere to the principles and best practices of corporate governance to foster the long-term success of the Bank in fulfilling its mission and vision.

The BOD is composed of seven (7) members. It is assisted in its governance function by the Audit Committee which reports regularly to the BOD.

Audit Committee

The Audit Committee is tasked primarily with assisting the BOD to fulfill its oversight responsibilities. The Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliant with prescribed accounting standards. The Audit Committee facilitates free and open communication among Management, Compliance Office, Risk Management Committee, Internal Audit, the External Auditors, and BSP examiners. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements, review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

Risk Oversight Committee

The Risk Oversight Committee is a board-level committee responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

IT Steering Committee

The IT Steering Committee is a board-level committee responsible for the monitoring IT performance and devising appropriate actions to ensure the achievement of desired results. It sets the IT strategic direction of the Bank and ensures that these are aligned with Bank's goals and objectives. It provides oversight functions on major technology implementations, and makes certain that key technology solutions being acquired, developed, and/or outsourced meet the requirements and specifications of the business users of the Bank. The IT Steering Committee also ensures that overall IT performance is measured, its resources are managed, its risks are mitigated, and that the IT projects and priorities best meet the overall priorities of the Bank.

Management Committee

Management Committee is responsible for the implementation of the strategies on risk control and makes adjustments to the overall business strategy. It also ensures compliance with laws and regulations and creates systems to measure and monitor the performance of the line managers under their respective areas of responsibility. The Management Committee regularly reports to the BOD.

Credit Committee

A committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process of the Bank. All credit proposals beyond the credit approving limit of the Credit Operations Head and the President pass through this committee. Credit proposals beyond its limits are escalated to the Risk Management Committee for endorsement to the BOD for final approval.

Asset-Liability Committee

Asset-Liability Committee is responsible for the oversight of the Bank's assets and liabilities and for managing interest rate exposure. The committee's goal is to achieve a desired overall interest rate profile within the Bank's appetite for interest rate risk, keeping the flexibility to interest rate movements and changes in economic conditions.

Related Party Transaction Committee

Related Party Transaction (RPT) Committee is a committee responsible for the review of proposed related party transactions to ensure transparency and fairness for all stakeholders. Its purpose is to determine whether or not the transactions are on terms no less favorable to the Bank than the terms available to any unconnected third party under the same or similar circumstances. The proposed RPT transactions as well as the actions taken thereon by the committee are presented and endorsed to the BOD for approval.

Compliance Office

This Compliance Office is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Chief Compliance Officer regularly reports to the BOD.

Internal Audit

Internal Audit (IA) provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IA audits risk management processes throughout the Bank. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee of the BOD.

b. Selection Process for the Board and Senior Management

The BOD recognizes that its members as well as the senior management must have the appropriate skill set, as well as the necessary experience and commitment, to efficiently and effectively contribute to the growth of the Bank. The directors and senior management are expected to remain and act properly within the duration of their terms. They should possess unquestionable credibility to make decisions objectively and resist undue influence. Each of the directors shall treat their directorship as a profession and shall have a clear understanding of his/her duties and responsibilities as well as his/her role in promoting good governance.

c. Board of Directors' Overall Responsibility

The BOD composed of seven (7) directors, is primarily responsible for defining the Bank's vision and mission. The Board has the fiduciary responsibility to the Bank and all its shareholders. It approves and functions as an oversight in the implementation of strategies in order for the Bank to achieve its corporate objectives. It likewise approves and oversees the implementation of the risk governance framework, the systems of checks and balances, and the establishment of a sound corporate governance framework. The BOD approves the selection of the Chief Executive Officer and key members of senior management and control functions and oversees their performance.

d. Role and Contribution of Executive, Non-Executive, and Independent Directors, and of the Chairman of the Board

The President and Vice-President are executive directors primarily responsible for the general supervision, administration, and management of the Bank in carrying out its policies and objectives. In addition, the Bank has two non-executive directors responsible for the oversight function of the Bank's business and affairs. Lastly, the Bank also has three (3) independent directors. To meet the criteria of independence, the independent directors are not involved in the day-to-day management of the Bank, do not participate in any of its business dealings, and do not own more than 2% of the outstanding shares of the Bank, among others.

The Chairperson of the Board, who provides leadership in the BOD, is responsible for:

i. The effective function of the BOD, maintaining a relationship of trust among its members;
ii. Oversight in the meeting agenda focused on strategic matters including discussions on risk appetites, and key governance concerns;
iii. Encouraging and promoting critical discussions to ensure that dissenting views can be expressed and discussed within the decision-making process;
iv. Ensuring that its members receive accurate, timely, and relevant information;
v. Conducting proper orientation for first-time directors and providing training opportunities for all directors; and
vi. Conducting performance evaluation of the members of the board, at least annually.

e. Board of Directors Composition

	Name of Director	Type of Directorship	No. Of Years Served as Director	No. of Shares Held	Percentage of Ownership
1	Philippe J. Lhuillier	Chairman/ Non-Executive	24 years	1,207,139	37.14%
2	Jean Henri D. Lhuillier	Non-Executive	24 years	1,137,495	35%
3	Dennis O. Valdes	Executive	> 4 years	2	0%
4	Jimmy S. Ang	Executive	> 2 year	1	0%
5	Ma. Rodora E. Banares	Independent Director	1 year	1	0%
6	Horatio S. Aycardo Jr.	Independent Director	1 year	1	0%
7	Andrew D. Alcid	Independent Director	< 1 year	3	0%

f. **BOD Qualification**

Ambassador Philippe J. Lhuillier, Chairman | 77 yo | Filipino
BS Business Management

Current Directorship, Officership, Work Experience:

Name of Office	Position	Date Assumed
P.J Lhuillier Inc.	Chairman of the Board	04/07/1989
P&EL Realty Corporation	Chairman of the Board	10/10/1989
Oceanic Escoldta Gifts and Jewelries	Chairman of the Board	02/16/1990
CebuanaLhuillier Services Corp.	Chairman of the Board	09/20/1996
P.J Lhuillier Development Corp.	Chairman of the Board	01/30/1997
Phils Import-Export Co., Inc.	Chairman of the Board	03/07/1997
PJL Fastfoods, Inc.	Chairman of the Board	09/25/1998
Le Soleil De Boracay Resort, Inc.	Chairman of the Board	11/13/1998
PJL Corporate Centre, Inc.	Chairman of the Board	08/05/1999
CebuanaLhuillier Foundation, Inc. (formerly P.J. Lhuillier Foundation, Inc.)	Chairman of the Board	12/28/2000
PJL Ventures, Inc.	Chairman of the Board	04/23/2001
PJL Leisure, Inc.	Chairman of the Board	02/28/2005
Cintree Management Services, Inc.	Chairman of the Board	06/24/2005
Riche Gould Real Estate, Inc.	Chairman of the Board	08/16/2005
Verite Pawn Corp.	Chairman of the Board	09/14/2005
Just Jewels Diamonds Boutique	Chairman of the Board	10/20/2005
Pawnsoft Services, Inc.	Chairman of the Board	01/25/2010
Department of Foreign Affairs	Philippine Ambassador to Spain	10/11/2016
Department of Foreign Affairs	Philippine Ambassador to Portugal	10/08/2012 to 2016
Department of Foreign Affairs	Philippine Ambassador to Italy	1999-2010
Department of Foreign Affairs	Philippine Ambassador to Albania	2000-2010
Department of Foreign Affairs	1st Philippine Ambassador to San Marino	2003-2010

Jean Henri D. Lhuillier, Vice-Chairman | 53 yo | Filipino
BS Economics and Business Administration, Doctor of Humanities

Current Directorship, Officership, Work Experience

Name of Office	Position	Date Assumed
Phils Import-Export Co., Inc.	President and CEO	03/07/1997
Cebuana Lhuillier Services Corporation	President and CEO	09/01/1998
P.J. Lhuillier, Inc.	President and CEO	09/01/1998
P & EL Realty Corporation	President and CEO	09/01/1998
P.J. Lhuillier Development Corp.	President and CEO	09/01/1998
Le Soleil D' Boracay Resort, Inc.	President and CEO	11/13/1998
Cebuana Lhuillier Insurance Solutions, Inc.	Chairman and President	06/11/1999
DFNN, Inc.	Director	06/14/1999
PJL Corporate Centre Inc.	President and CEO	08/05/1999
Hatchasia, Inc.	Director	2000
Intelligent Wave Philippines	Director	2001
Cebuana Lhuillier Foundation, Inc. (formerly PJL Foundation, Inc.)	President and CEO	12/28/2000
Pawnsoft Services, Inc.	President and CEO	01/25/2001
PJL Ventures, Inc.	President and CEO	04/23/2001
Chamber of Pawnbrokers of the Philippines, Inc.	VP for External Affairs	01/01/2002
Pawnsafe Services Corp.	President and CEO	05/06/2004
Pawncare Services, Inc.	President and CEO	05/06/2004
PJL Leisure, Inc.	President and CEO	02/28/2005
Philippine Coast Guard	101st Auxillary Squadron	05/01/2005
Cintree Management Services, Inc.	President and CEO	06/24/2005
Riche Gould Real Estate, Inc.	President and CEO	08/16/2005
Verite Pawn Corp.	President and CEO	09/14/2005
Just Jewels Diamonds Boutique Corp.	President and CEO	10/20/2005
Networld Capital Ventures, Inc.	Chairman and President	12/21/2005
Next Ideas, Inc.	Director	03/01/2006
Enderun Colleges, Inc.	Director	06/05/2006
FlacorHeli Solutions Philippines, Inc.	Director	05/12/2010
Republic of San Marino Office	Honorary Consul General of the Republic of San Marino to the Philippines	11/22/2007 (Appointive)

Dennis O. Valdes, Director and President | 44 yo | Filipino
BSC Management of Financial Institutions, MBA

Current Directorship and Officership:

Name of Office	Position	Date Assumed
Rural Bank Association of the Philippines Region IVA	Board Director Region IV-A	2020 to 2021 / 2022 to present
Confederation of Southern Tagalog Rural Banks	Vice President	2019 to 2021
Cavite Federation of Rural Banks, Inc.	Member	2018 to present
Financial Executives Institute of the Philippines	Member	2021 to present
Philippine Payments Management, Inc. (PPMI)	Board Director ExCom Member	2022 to present

Work Experience:

NAME OF OFFICE	POSITION TITLE	DURATION	
		FROM (mm/dd/yyyy)	TO (mm/dd/yyyy)
P.J. LHUILLIER, INC.	VICE PRESIDENT AND	01/02/2012	31/05/2018
P.J. LHUILLIER, INC.	CFO -OIC (CONCURRENT)	01/06/2016	30/06/2017
UNIONBANK	BUSINESS MANAGER	01/10/2008	31/01/2012
UNIONBANK	RELATIONSHIP MANAGER	01/01/2006	30/09/2008
UNIONBANK	CASH SOLUTION MANAGER	01/07/2004	31/12/2005
AUSTRALIA AND NEW ZEALAND BANKING	ACCOUNT OFFICER	01/08/2001	30/06/2004
EQUITABLE PCI BANK	ACCOUNT OFFICER ASSISTANT	01/07/2000	31/08/2001
EQUITABLE PCI BANK	CREDIT ANALYST	01/06/1999	30/06/2000

Jimmy S. Ang, Director and Vice President | 46 yo | Filipino
BSC Marketing

Work Experience:

NAME OF OFFICE	POSITION TITLE	DURATION	
		FROM (mm/dd/yyyy)	TO (mm/dd/yyyy)
CITIBANK N.A.	BRANCH CUSTOMER SERVICE ASSOCIATE	01/08/1998	28/02/1999
INTERNATIONAL EXCHANGE BANK	SENIOR PRODUCT ASSOCIATE	01/03/1999	01/06/2003
JAPAN CREDIT BUREAU	MARKETING MANAGER	02/06/2003	01/10/2007
HUDSONS BAY LOYALTY MANAGEMENT	ACTING COUNTRY MANAGER	02/10/2007	30/10/2009
MEGALINK INC.	SAVP AND HEAD OF RELATIONSHIP AND RISK MANAGEMENT	31/10/2009	31/12/2015
COUNTRY BUILDERS BANK	VICE PRESIDENT AND HEAD OF MARKETING	01/01/2016	01/08/2019

Ma. Rodora E. Banares, Independent Director | 60 yo | Filipino
BS Business Administration, MBA

Work Experience:

NAME OF OFFICE	POSITION TITLE	DURATION	
		FROM (mm/dd/yyyy)	TO (mm/dd/yyyy)
NORTHPOINT DEVELOPMENT BANK	INDEPENDENT DIRECTOR	01/07/2021	31/10/2021
BANK OF MAKATI	DIRECTOR	01/07/2017	30/06/2021
BANK OF MAKATI	PRESIDENT	01/07/2010	30/06/2017
BANK OF MAKATI	EXECUTIVE VICE PRESIDENT	01/07/2007	30/06/2010
ASIATRUST BANK	SENIOR VICE PRESIDENT	02/01/2004	30/06/2007
SECURITY BANK CORP	SENIOR VICE PRESIDENT	02/11/1999	31/12/2003

Horatio S. Aycardo Jr., Independent Director | 66 yo | Filipino
BS Mathematics, MBA

Work Experience:

NAME OF OFFICE	POSITION TITLE	DURATION	
		FROM (mm/dd/yyyy)	TO (mm/dd/yyyy)
PHILIPPINE NATIONAL BANK	CORE BANKING INTEGRATION	2/15/2015	2/28/2019
PHILIPPINE BANK OF COMMUNICATION	CHIEF OPERATING OFFICER	8/1/2012	1/31/2015
CITIBANK, N.A.	COUNTRY TECHNOLOGY HEAD	2/1/2008	2/29/2012
CITIBANK, N.A.	SENIOR COUNTRY OPERATION	10/1/2001	1/31/2008
CITIBANK, N.A.	COUNTRY TECHNOLOGY HEAD	4/1/2001	9/30/2001
CITIBANK, N.A. ASIA-PACIFIC SUPPORT	ASIA-PACIFIC SUPPORT CENTER	9/1/1997	3/31/2001
CITIBANK, N.A. ASIA-PACIFIC SUPPORT	ATM DEVELOPMENT HEAD	6/1/1995	8/31/1997
CITIBANK, N.A. ASIA-PACIFIC SUPPORT	BRANCH SYSTEMS	4/1/1989	5/31/1995
CITIBANK, N.A. ASIA-PACIFIC SUPPORT	CORE BANKING DEVELOPMENT	2/24/1986	3/31/1989
UNITED LABORATORIES, INC	DIRECTOR, MANUFACTURING	7/1/1985	1/31/2986
IBM PHILIPPINES, INC	INDUSTRY SPECIALIST	6/1/1983	6/30/1985
IBM PHILIPPINES, INC	SYSTEMS ENGINEER	6/1/1978	5/31/1983

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Andrew D. Alcid, Independent Director | 64 yo | Filipino
Bachelor in Business Administration, MBA

Work Experience:

NAME OF OFFICE	POSITION TITLE	DURATION	
		FROM (mm/dd/yyyy)	TO (mm/dd/yyyy)
PHILIPPINE REALTY AND HOLDINGS CORPORATION	PRESIDENT/CEO	01/08/2013	30/09/2016
GREENHILLS PROPERTIES, INC.	PRESIDENT/CEO	01/02/2013	31/07/2013
COASTAL ROAD CORPORATION	PRESIDENT/CEO	01/10/2008	31/01/2013
AXA PHILIPPINES	PRESIDENT/CEO	01/05/2006	30/09/2008
BDO PRIVATE BANK, INC	EXECUTIVE VICE PRESIDENT/COO	01/03/2004	30/04/2006
UNITED COCONUT PLANTERS BANK(UCPB)	EXECUTIVE VICE PRESIDENT/COO	01/09/1999	28/02/2004
CITIBANK N.A. (MANILA)	VICE PRESIDENT, HEAD OF CAPITAL MARKETS	01/01/1997	31/08/1999
CITICORP INTERNATIONAL LIMITED (HONGKONG)	DIRECTOR, HEAD OF SYNDICATIONS	01/01/1995	31/12/1996
CITICORP SECURITIES, INC. (NEW YORK & LOS ANGELES), UNITED STATES OF AMERICA (USA)	VICE PRESIDENT, REAL ESTATE INVESTMENT BANKING	01/07/1989	31/12/1994
MERRILL LYNCH MORTGAGE CAPITAL INC. (NEW YORK), UNITED STATES OF AMERICA (USA)	COMMERCIAL MORTGAGE-BACKED SECURITY (CMBS) TRADER	01/03/1987	30/06/1989
SALOMON BROTHERS INC. (NEW YORK), UNITED STATES OF AMERICA (USA)	ASSOCIATE, MORTGAGE FINANCE	01/09/1985	28/02/1987
PEAT, MARWICK, MITCHELL & CO. (NEW YORK), UNITED STATES OF AMERICA (USA)	AUDIT ASSOCIATE	01/09/1982	31/08/1985

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g. List of Board Level Committees including Membership and Function

Board Level Committee	Membership	Function
Audit Committee	Ma. Rodora E. Banares, *Chairperson* Members: Philippe J. Lhuillier, *BOD Chairman* Jean Henri D. Lhuillier, *BOD Vice Chairman* Andrew D. Alcid, *Independent Director*	- Oversight of the financial reporting framework - Monitor and evaluation on the adequacy and effectiveness of the internal controls system - Oversight on the implementation of corrective actions - Investigate significant issues/concerns raised
IT Steering Committee	Horatio S. Aycardo Jr., *Chairperson* Members: Dennis O. Valdes, *Director and President* Lauro M. Cruz Jr., *OIC IT Operations Head*	- Set IT strategic direction of the Bank - Oversight on major technology implementations - Ensure that IT projects and priorities best meet the overall priorities of the Bank. - Ensure that overall IT performance is measured, its resources are managed, and its risks are mitigated.

Risk Oversight Committee	Andrew D. Alcid *Chairperson* Members: Ma. Rodoro E. Banares *Independent Director* Horatio S. Aycardo Jr. *Independent Director*	- Responsible for the development and oversight of the risk management program of the Bank. - Oversees the system of limits to discretionary authority that the BOD delegates to management - Ensures that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. - Develop necessary strategies that would prevent or minimize the impact of losses.

RPT Committee	**Horatio S. Aycardo Jr.,** ***Chairperson*** **Members:** **Ma. Rodora E. Banares,** ***Independent Director*** **Andrew D. Alcid, Independent Director**	- **Oversight function in different contracts with affiliates** - **Responsible for the arm's length review of proposed related party transactions to ensure transparency and fairness for all stakeholders.** - **Review of materiality threshold** - **Determine whether or not the transactions are on terms "not less favorable" to the Bank than the terms available to any unconnected third party under the same or similar circumstances.** - **The committee presented and endorsed the proposed RPT transactions as well as the actions taken thereon to the BOD for approval.**

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h. Directors' Attendance at BOD Meetings

The BOD was elected by the stockholders in their annual meeting held on January 10, 2022. The term of the directors is for one year. Hereunder is the report of directors' attendance at the board and committee meetings during the election year up to December 31, 2022, including the number of board and committee meetings attended by each director.

COMPLIANCE MONITORING
Directors' Attendance at BOD and Committee Meetings

SIGNATORIES	BOD	%	AUDCOM	%	RPT	%	ITSC	%	RISKCOM	%
AMB. PHILIPPE J. LHUILLIER	13/13	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MR. JEAN HENRI D. LHUILLIER	13/13	100%	18/18	100%	N/A	N/A	N/A	N/A	N/A	N/A
MR. DENNIS O. VALDES	13/13	100%	N/A	N/A	N/A	N/A	11/12	92%	17/19	89%
MR. JIMMY S. ANG	13/13	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MR. HORATIO S. AYCARDO JR.	13/13	100%	N/A	N/A	11/11	100%	12/12	100%	N/A	N/A
MR. ISMAEL R. SANDIG (Resigned effective October 31, 2022)	11/11	100%	15/15	100%	10/10	100%	N/A	N/A	16/16	100%
MS. MARIA RODORA E. BANARES	13/13	100%	18/18	100%	11/11	100%	N/A	N/A	19/19	100%
MR. ANDREW ALCID	1/1	100%	1/1	100%	N/A	N/A	N/A	N/A	1/1	100%

i. Changes in the Board of Director (for Complex Banks)

The Bank is classified as simple bank.

j. List of Executive Officers/ Senior Management

Dennis O. Valdes, President
Filipino, 44 | President since 2018 | Director since 2018 | Board Director Region IV-A, Rural Bankers Association of the Philippines (2020 to 2021 and 2022 to 2023)|Vice-President, Confederation of Southern Tagalog Rural Bankers (2019 to 2021) | Member, Cavite Federation of Rural Banks | Member, Financial Executives Institute of the Philippines, Member | Education: Bachelor of Science degree in Commerce, De La Salle University. Master of Business Administration, DLSU Graduate School of Business

Jimmy S. Ang, Vice President and Head of Retail Banking Division
Filipino, 46 | Vice-President since 2019 | Head of Retail Banking Division since 2019 | Former Vice President and Marketing Head of Country Builders Bank | Former SAVP and Head of Relationship and Risk Management, Megalink, Inc. | Education: Bachelor of Science degree in Commerce Major in Marketing, Far Eastern University

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Charm O. De Guzman, Head of Credit Operations Division

Filipino, 47 |Head of Credit Operations Division in 2019 | Head of Cash Management and Consumer Finance Division in 2018 | Former Senior Manager in Wholesale Lending–Business Banking, ANZ Global Services and Operations (Manila), Inc.| Former SAVP and Head of Portfolio Management Division, RCBC Savings Bank | Education: Bachelor of Science degree in Commerce Major in Economics, University of Santo Tomas

k. Performance Assessment Program

The assessment and evaluation system of the Bank involves the assessment of the activities and/ or accomplishments of the BOD, committees, and individual directors, officers, and staff. The performance assessment program consists of the following steps:

Step 1 – Identification of Criteria and Expected Activities
Step 2 – Methodology and Assessment Approach
Step 3 – Assessment Timetable
Step 4 – Corporate Governance and Operational Improvement Program
Step 5 – Documentation
Step 6 – Directives, Desired Actions, and Areas of Improvement

The BOD, as a whole, in coordination with the Chief Compliance Officer, conducts the self-assessment, assessment of committees, and compliance function. The Audit Committee assesses/ evaluates the Internal Auditor. The senior management is evaluated by the BOD, while the other officers and staff are evaluated by the manager or by their respective supervisors. Management reports to the BOD the result of the performance evaluation of officers and staff and provides recommendations based on the results of the rating. The recommendations may be in the form of merit increases, promotions, or both.

The BOD, President, Managers, and Supervisors document all its assessment activities for future reference and appropriate tracking of records. This is to ensure to have a common understanding of the corporate governance and operational improvement programs, including improvements of bank personnel. It is also to assign clear accountability for the effective implementation both of the program and the timetable.

The BOD, President, Managers, and Supervisors provide/ set instructions for the rate to improve the result of the assessment/ evaluation and of the Bank's operations as a whole. Such specific actions and recommendations are commensurate with the issues identified and the resulting assessment of the quality of corporate governance, and operational activities. Part of the recommendation is a continuous personnel improvement thru the conduct of necessary training.

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l. Orientation and Education Program

The directors and senior management maintain professional integrity and continuously seek to enhance their skills, knowledge, and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training. Directors and senior management attend corporate governance seminars conducted by BSP accredited training providers, before, or at least immediately after, the assumption of office. In 2021, directors and senior management also attended training related to AML, risk management courses, supervisory assessment framework webinar, digital transformation webinars, and leadership imperatives, to name a few.

The Human Resources Department under PJLI Group regularly reviews the training program of the Bank's employees ensuring continuous enhancement of skills and updates with the relevant rules and regulations. During the outbreak of the pandemic, employee training was conducted through a series of webinars and online learning activities. Webinars also include wellness and mental health programs for employees, as the industry copes with the new normal in the overall changes in working arrangement, environment, and business processes.

m. Retirement and Succession Policy

The normal retirement date of senior management is upon his/ her attainment of age 60. On the other hand, the Bank does not impose mandatory retirement age for the directors. Moreover, independent directors may only serve as much for a maximum cumulative term of nine years, after which, the independent director shall be perpetually barred from serving as an independent director in the Bank, but may continue to serve as a regular director. The nine-year maximum cumulative term for independent directors shall be reckoned from 2012. Meanwhile, for non-independent directors, the Bank does not impose any limit on the term.

Succession policy provides the Bank's succession plan to identify and develop internal personnel with the potential to fill critical organizational positions. The Bank's succession plan involves planning for smooth continuation and to manage gaps that will arise when individuals in key positions leave or are promoted.

n. Remuneration Policy

The Bank provides rewarding careers by maintaining competitive compensation and benefits programs for employees. The remuneration policy of the Bank applies to all employees including its senior officers. The relative value of each job and corresponding pay levels are determined by a competency-based job evaluation system. The Human Resources Department under PJLI Group regularly reviews the compensation policies and recommends changes through the senior management for endorsement to the BOD approval.

On top of the salaries, the Bank's employees, including senior management, also receive other compensation and benefits such as:

- Guaranteed bonus
- Performance-based incentive
- 13th-month pay
- Overtime pay (supervisors and below)
- Leaves (vacation, sick, maternity, paternity, solo parent, and special leave for women)
- Medical benefits (hospitalization and out-patient benefits for employees)
- Financial assistance loans for officers and employees
- Retirement benefits based on tenure and salary

i. **Remuneration Policy and Structure for Executive and Non-Executive Directors**

Per diem of BOD are as follow:

Regular Board Meetings	Amount
Chairman of the Board Board Members	Php 20,000.00 Php 15,000.00
Special Board Meetings	
Chairman of the Board Board Members	Php 15,000.00 Php 10,000.00
Committee Meetings	
Chairman of the Committee Board Members	Php 10,000.00 Php 5,000.00

ii. **Remuneration Policy for Senior Management**

The Chairman determines and recommends the salaries of the Bank's senior management.

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o. Policies and Procedures on Related Party Transactions

The Bank recognizes that transactions between and among related parties create financial, commercial, and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, it is the policy of the Bank that related party transactions (RPT) are done on an arm's length basis. Towards this end, the Bank exercises appropriate oversight and implements effective control systems in managing said exposures as these may potentially lead to abuses that are or may be disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The BOD manages conflicts of interest or potential conflicts of interest and is responsible in:

i. Evaluation on an ongoing basis, the existing relations between and among businesses and counter-parties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in the relationship with counter-parties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the BOD and regulators/supervisors.

ii. Evaluation of all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties as compared to similar transactions with non-related parties under similar circumstances; to ensure that no corporate or business resources of the BSFI are misappropriated or misapplied; and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the BOD takes into account, among others, the following:
    - the related party's relationship to the Bank and interest in the transaction;
    - the material facts of the proposed RPT, including the proposed aggregate value of such transaction;
    - the benefits to the Bank of the proposed RPT;
    - the availability of other sources of comparable products or services; and
    - assessment on whether the proposed RPT is within terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank has in place an effective price discovery system and exercises due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on the Bank's internal policies require BOD approval to:

- Ensure that appropriate disclosure is made, and/ or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies and on conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.

- Direct management to report to the BOD regularly, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.

- Ensure that transactions with related parties, including write-offs of exposures, are subject to periodic independent review or audit process.

- Oversee the implementation of the system in identifying, monitoring, measuring, controlling, and reporting of RPTs, including the periodic review of RPT Policies and procedures.

Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

The related party transactions shall be conducted in the regular course of business and are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirements etc.) than similar transactions with non related parties under similar circumstances.

The Bank shall implement a price discovery system. This shall include but not limited to the following:

- Acquiring the services of an external expert;
- Opening the transaction to a bidding process; or
- Publication of available property for sale.

Vetting Process:

The concerned Division Head shall prepare/present the RPT proposal to the RPT Committee. This shall include but not limited to the following:

- The nature of transaction;
- Terms and conditions of the proposed RPT at arm's length and are comparable to the terms generally available to an unrelated party;
- Benefits and other details of the proposed RPT;
- Other relevant or material information regarding the RPT transaction

The RPT Committee shall review/vetting the proposed RPT transaction. The same shall be endorsed to the Board for approval.

Any transaction that involves a transfer of resources, services or obligations between the Cebuana Lhuillier Rural Bank, Inc. and its related party shall be considered a related party transaction.

Related party transactions that are excluded from materiality threshold requirement shall be the following:

1) Transactions concerning deposit operations;
2) Regular trade transactions involving purchases and sales of debt securities traded in an active market; and
3) Bank's fringe benefit programs approved by the BSP.

Related party transaction/s, either individually, or in aggregate over a twelve (12) month period with the same related party, amounting to ten percent (10%) or higher of the Cebuana Lhuillier Rural Bank's total assets based on its latest audited financial statement shall be considered material RPTs.

The Cebuana Lhuillier Rural Bank's Whistle Blowing Policy shall also apply to RPTs.

Restitution of losses and remedies for abusive RPTs including the manner of handling personnel, officers, or directors, who have been remiss in their duties in handling RPTs shall be governed by the HRD Manual and policies.

iii. In 2022, the following material RPTs were entered into between the Bank and its related parties (see also **Note 22** of the Audited Financial Statements section).

Related Party Category	Notes	2022 Amount of Transaction	2022 Outstanding Balance	2021 Amount of Transaction	2021 Outstanding Balance
DOSRI:					
Grant and payment of loans	22.1	P 6,375,564	P 14,497,316	P 6,375,564	P 14,497,316
Deposit liabilities	22.1	50,921,368	(24,290,627)	50,921,368	(24,290,627)
Other related parties –					
Cash agent transactions	10, 17, 22.2	5,096,216,478	74,429,244	2,503,394,992	62,238,171
Commission expense	22.2	28,981,408	-	60,004,875	-
Key Management Personnel –					
Compensation	22.3	38,707,473	-	28,653,128	-

iv. Policy on Directors or Officers with Interlocking Positions in Other Entities

I. Objective. To have an effective governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are optimized, that the concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented.

II. Duties and Responsibilities of the Board of Directors. Consistent with the standards and principles set forth in the corporate governance guidelines for BSFIs under Sec. 132, the board of directors shall:

(1) Approve policy on having directors or officers with interlocking positions in other entities, which shall cover. among others. the following:

(a) Cases and the corresponding rationale when the **CLRB** shall allow/appoint directors or officers to have/with interlocking positions in other entities: the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that **may be** held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions.

Provided, That the limit to be set shall be consistent with item "b" of qualifications of a director under Section 132, to wit;

As a general rule, the Chairperson of the board of directors shall be a non-executive or an independent director.

The positions of chairperson and CEO shall not be held by one (1) person. In exceptional cases where the position of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

The Chairperson must not have served as CEO of the CLRB within the past three (3) years. In exceptional cases, former CEO of CLRB shall be allowed to immediately assume the position of the Board of directors, provides, That:

(1) This is consistent with the provision of its succession plan; and
(2) There are no major supervisory concerns in the quality of the CLRB's governance, risk management, systems, and internal controls and compliance system, and the CLRB is not subject to escalated enforcement action.

For this purpose the board of directors shall define the responsibilities of the lead independent director, which shall be documented in the corporate governance manual. The board of directors shall ensure that the lead independent director shall ensure that the lead independent director functions in an environment that allows him effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhance function over the other independent directors and shall: (1) lead the independent directors at board of directors meeting in raising queries and pursuing matters; and (2) lead meeting of independent directors, without the presence of the executive directors.

(b) Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situation;

(c) Requirement to obtain approval from the board of directors or the appropriate authority designated in the CLRB prior to acceptance of interlocking directorship/officership positions in other entities;

(d) Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerate: and

(e) Courses of action in case conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.

(2) Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held. The assessment of the Board shall include the following:

(a) Justifications on why there will be no conflict of time and interest in the performance of the subject director/officer's duties and responsibilities considering their interlocking positions with other institutions; and

(b) Justification on how their educational background and work experiences will help in the effective discharge of their duties and responsibilities as director/officer of CLRB.

(3) Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the BSFI. It shall be the responsibility of the board of directors to conduct a periodic performance evaluation of the concerned directors and

officers measured against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the CLRB has been adversely affected by the interlocking positions held by the director and/or officer.

(4) Ensure that the control functions (i.e. risk management. compliance. and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the board of directors or board-level committee to whom they functionally report to.

III. Factors to Consider on Interlocking Positions. CLRB shall observe the following rules for interlocking positions held by directors and/or officers:

(1) Interlocking directorships are allowed except in cases involving banks belonging to the same category. In this respect, interlocking directorships in banks belonging to the same category shall only be allowed if the banks: (i) are part of the same banking group; or (ii) have different business models and are serving different markets or clients.

For purpose of determining interlocking directorship, a director and his/her spouse, whether legitimate or common-law, shall be considered as one (1) and the same person.

(2) Interlocking directorships are allowed provided that the positions do not pose conflict of interests. For this purpose, the appointment should be consistent with the policy adopted by the CLRB.

(3) As a general rule, interlocking officerships shall not be allowed except:

(a) Held in the same capacity within a banking group as (i) corporate secretary (ii) security officer, (iii) Chief Risk Officer, Chief Compliance Officer, Head of Internal Audit, or (iv) other positions performing similar functions as those in (i) to (iii) hereof; Provided That: The assumption of interlocking officerships is consistent with the enterprise risk management approach of the CLRB and the banking group where the concerned entities belong.

(b) As corporate secretary or assistant secretary between/among entities which are not part of the same banking group/conglomerate provided that;

(1) Proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained; and
(2) The positions do not pose conflict of interest and that the officer holding interlocking positions will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities.

IV. Approval of interlocking positions. The board of directors shall approve the interlocking positions held by directors and officers of CLRB. The documents supporting the approval shall reflect the assessment done by the approving authority consistent with this policy.

Reports. The Compliance Office shall submit an annual report of all interlocking positions of its directors and officers within twenty (20) banking days from end of each reference year starting 31 December 2021.

The Compliance Office shall keep a complete record of all interlocking positions of its directors and officers, and documentation of the assessments conducted by the board of directors and shall maintain a system of updating said records which shall be made available during examination by the Bangko Sentral or when required for submission for verification.

V. BSP Enforcement Actions

The Bangko Sentral shall deploy enforcement actions to promote adherence to the requirements on interlocking directorships and or officerships under Section 137 of the MORB. The Bangko Sentral shall issue directives or sanctions on the CLRB and responsible persons which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned CLRB directors and officers. The Bangko Sentral shall disallow interlocking directorships and officerships or direct the CLRB to amend its internal policy on interlocking positions pose conflict of interest which give rise to excessive concentration of economic power, unfair competitive advantage, and abusive practices.

VI. Effectivity:

This policy shall be effective starting 01 July 2022.

INTERLOCKING INFORMATION:

Maria Rodora E. Banares – Independent Director

NAME OF OFFICE	POSITION TITLE	DATE ASSUMED (mm/dd/yyyy)	INDICATE IF OWNER / PARTNER / STOCKHOLDER
FUNDLINE FINANCE CORPORATION	INDEPENDENT DIRECTOR	25/11/2021	N/A
IOT TECHNOLOGY, INC	MANAGING DIRECTOR	02/01/2018	STOCKHOLDER
IOT VALLEY, INC	CHAIRMAN	02/01/2020	STOCKHOLDER
VINES E - TRADING NETWORK, INC	MANAGING DIRECTOR	02/01/2019	STOCKHOLDER
IOT ACH SERVICES, INC	CHAIRMAN	02/01/2019	STOCKHOLDER
BLESSED SAN BENITO REALTY CORP	INDEPENDENT DIRECTOR	01/12/2021	N/A

Horatio S. Aycardo Jr. – Independent Director

NAME OF OFFICE	POSITION TITLE	DATE ASSUMED (mm/dd/yyyy)	INDICATE IF OWNER / PARTNER / STOCKHOLDER
SAMSON COLLEGE OF SCIENCE &	FINANCE & IT HEAD	3/1/2019	STOCKHOLDER
SAMTOP INVESTMENT	DIRECTOR	9/1/1992	STOCKHOLDER

Andrew D. Alcid – Independent Director

NAME OF OFFICE	POSITION TITLE	DATE ASSUMED (mm/dd/yyyy)	INDICATE IF OWNER / PARTNER / STOCKHOLDER
THE SLOAN GROUP	PARTNER (CONSULTANT AND ADVISOR)	01/10/2016	PARTNER
N/A	N/A	N/A	N/A

p. Self-Assessment Form

i. **Internal Audit and Compliance Functions**

The *internal audit function*, with strict accountability for confidentiality and safeguarding of records and information, is authorized full, free, and unrestricted access to any of the Bank's records, physical properties, and personnel pertinent to carrying out internal audit engagement.

It also has the authority to directly access and communicates with any officer or employee, to examine any activity or entity of the Bank, as well as to access any records, files or data whenever relevant to the exercise of its internal audit assignment. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity also has unrestricted access to the BOD.

The *compliance function* remains sufficiently independent of the operations that it conducts compliance testing and evaluation to enable him/ her to perform his/ her duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The compliance function has no operational responsibilities. The Chief Compliance Officer reports directly to the BOD every month.

The Chief Compliance Officer reports regularly to senior management on compliance matters. The report refers to the compliance risk assessment that has taken place during the reporting period, including any changes in the compliance risk profile based on relevant measurements such as performance indicators, a summary of any identified breaches and/ or deficiencies, the corrective measures recommended to address them, and the report on corrective measures already taken.

ii. **Review of Effectiveness and Adequacy of the Internal Control System**

The Audit Committee assists the BOD in reviewing the assurance reports of the Internal Audit covering the results of the assessment on the adequacy and effectiveness of the internal controls, risk management, and governance processes, and in overseeing the financial management processes, the systems of internal accounting and financial controls, the performance and independence of the external and internal auditor, and annual independent audit of the Bank's financial statements. Internal control and risk management are further strengthened with the BOD's approval of the Audit Committee recommendations arising from a periodic review of Internal Audits, management reports, and consultation with the Bank's front-line and support units.

q. Dividend Policy

Before the declaration of dividends, the BOD ensures compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The BOD has the power to declare and approve cash dividends, while the stockholders have the right to approve stock dividends. The net amount available for dividends is the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar year-end immediately preceding the date of dividend declaration. For the year ended, December 31, 2020, and 2019, the Bank did not declare cash dividends in line with Bank's strategic plan to continuously build up capital. Rather, a series of stock declarations and distributions were made in 2019. In 2020, a Php 100.0 Million deposit for future capital subscription was infused by the major stockholders of the Bank.

r. Corporate Social Responsibility

The employees of the Bank are involved in conducting Financial Literacy Program in different schools in coordination with Cebuana Lhuillier Foundation Inc.

s. Consumer Protection Practices

i. Role and Responsibility of the BOD and Senior Management

The BOD of the Bank is ultimately responsible for ensuring that consumer protection practices are embedded in the Bank's business operations. Moreover,it is primarily responsible for approving and oversight of the implementation of the Bank's consumer protection policies; ensuring that mechanisms are in place in compliance to said policies.

The BOD together with Senior Management is responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs.

The Senior Management is responsible for the implementation of the consumer protection policies as approved by the Board, wherein the latter is responsible for monitoring and oversight the performance of the Senior Management in managing the day-to-day consumer protection activities of the Bank.

ii. Consumer Protection Risk Management System of the Bank

As part of the Bank's consumer protection risk management system, it has put in place appropriate management controls and has outlined reasonable steps in handling customer complaints/ requests to ensure that it identifies and remedies any recurring or systemic problems, and points out weaknesses in the Bank's internal control procedures or process by doing:

- data and root-cause analysis from the complaints/ requests;
- cause-effect analyses, taking into account the magnitude of the identified weakness/es on how it may affect other processes or products, including those not directly complained of/ requested for; and corrective actions, as may be reasonable, taking into account the concomitant costs and other resources.

iii. Consumer Assistance Management System

So that financial consumers are provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions, Cebuana Lhuillier Group has a designated department for complaint handling and redress.

Cebuana Lhuillier Customer Care provides services such as but not limited to receiving, recording, evaluating, resolving, monitoring, reporting, and giving feedback to consumers. The Consumer Help Officer is a front-liner who: i) receives and acknowledges consumer concerns; ii) records concerns; iii) makes an initial review and investigation of concerns; iv) handles simple complaints/ requests and escalates/ reports complex complaints/ requests to the Unit Consumer Help In-Charge.

The business managers of the Bank, on the other hand, are responsible for the oversight and evaluation of branch complaints. The officer is tasked to review consumer concerns and reports the same to the Retail Banking Division Head and the President. Complex complaints/requests may be further escalated by the officer-in-charge to the senior management, for proper disposition.

iv. Sustainable Finance

The Bank adopts the Board approved transition plan with specific timelines. These include strategy and policies integrating principles into its corporate governance and risk management framework as well as in its strategic objectives and

The Bank is now in the process of integrating sustainability principles in its governance frameworks, risk management system, business strategy and operations.

iv-A. Basic Principles and Policies to Sustainable Finance

CLHUI shall apply the following principles:

1. Conduct business in conformity with high ethical standards in order to ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients, and other stakeholders

2. Effectively implement a sound sustainable finance framework/risk management system that identifies, assesses, monitors and controls risks.

3. Adopt tools for monitoring Environmental and Social (E&S risks) as well as the compliance of the bank and its counter parties with sustainability-related standards, laws and regulations.

4. Adopt clear guidance in assessing E&S risks in the bank's operations, products and services, transaction, activities, and operating environment.

5. Integrate E&S risks in stress testing exercises covering both short- term and long-term horizons following the principles and requirements provided under Sec. 151 of the MORB.

6. Identify the unit or personnel responsible for overseeing the management of E&S risks.

7. Adopt measures that should be taken in case of breaches in limits or thresholds or non- compliance with sustainability-related standards, laws and regulations

iv-B. Environmental and Social Loan Products

1. **Environmental Loans -** The funds from Cebuana Bank committed to environmental or climate projects that contribute to environmental objectives such as climate change mitigation or adaptation, natural resource conservation, biodiversity protection, pollution prevention or control, circular economy transition, etc.

Renewable Energy	**Sustainable Development Goals**
This type of financing would encourage individuals for green and sustainable home (Solar-powered resilient community)	
Threshold Limits: Php100 Million **As of December 31, 2022 the number of accounts is 33 amounting to Php 69.88 Million**	

Agri-Loans	**Sustainable Development Goals**
This type of financing would facilitate and allow small farmers/fisher folks to have, if not more, access to credit. This is expected to further improve productivity in the agriculture and fisheries sectors and at the same time uplift the lives of these marginalized farmers/fisher folks	  
Threshold Limits: The threshold limits for Agri-Loans is to be approved by the Board by 2023.	

2. **Social Loans -** The funds from Cebuana Bank committed to social impact projects contribute such as addressing basic needs, improving access to essential services, promoting employment generation, enhancing socio-economic advancement and empowerment:

<u>Teacher's Loan</u> To finance the financial needs and any other productive purposes of teachers in public school. This will improve teacher's retention. High turnover rates in schools negatively impact student achievement.	**Sustainable Development Goals** 
<u>Threshold Limits: Php1 Billion</u> **<u>As of December 31, 2022 the number of accounts is 1,402 amounting to Php 469.02 Million</u>**	

<u>Microfinance Loans</u> This type of financing would facilitate and allow low income individuals that have no access to finance.	**Sustainable Development Goals**  
<u>Threshold Limits:</u> The threshold limits for Microfinance is to be approved by the Board by 2023.	

iv-C. Environmental and Social Risk Management Systems (ESRMS)

Cebuana Lhuillier Rural Bank shall adopt and implement a sound Sustainable Finance Risk Management System that identifies, assesses, monitors, mitigates and controls risks such as counter party, credit, operational, sustainable finance and compliance risks.

A. Governance

1. Board of Directors

It shall be the ultimate responsibility of the Board of Directors to fully comply with the Sustainable Finance consistent with this framework. The BOD shall set the tone of good governance and culture to ensure that sustainable finance risks are effectively managed and that this forms part of the CLRB enterprise risk management system.

The Risk Oversight Committee of the Board shall have the direct oversight on the management of sustainable finance risks.

2. Senior Management

Senior Management shall oversee the day-to-day management of CLRB and ensure effective implementation of Sustainable Finance policies approved by the Board of the Directors (BOD) and alignment of activities with the strategic objectives, risk profile and corporate values set by the BOD. Senior Management shall establish a management structure that promotes accountability and transparency and upholds checks and balances within CLRB.

3. Operational Management

To help Senior Management with its day-to-day management of Sustainable Finance risks, CLRB shall adopt the following:

a. Business Units and Branches

Branches and business units own and manage the Sustainable Finance risks and are responsible for implementing corrective actions to address any process and control gaps. Policies and procedures should:

i. be clearly written, communicated and available to all personnel;

ii. provide guidance on how to keep the activities of CLRB in accordance with this Sustainable Finance Framework and in compliance with BSP rules;

iii. contain a clear description of employees' duties and responsibilities; and

iv. contain internal procedures for detection of the potential negative impacts of transition risks to businesses and individuals including exposure arising from credit operations which include among others, potential issues associated with the activities of its borrowers that may have material impact and the corresponding control measures to mitigate such risks

iv-D. Specific Duties and Responsibilities of the Board of Directors and Senior Management

Board of Director's Duties and Responsibilities

a. Institutionalize the adoption of sustainability principles, including those covering Environmental and Social (E&S) risk areas in the Bank, by incorporating the same in the corporate governance and risk management frameworks, as well as in the Bank's strategic objectives, risk strategy, risk appetite and risk management policies and procedures. Moreover, the Board shall:

i. Set strategic E&S objectives covering short, medium, and long-term horizons:

ii. Approve the risk appetite on specific risk areas that the Bank is willing and capable to manage, results of stress testing exercises, and assessment of the timing and channels through which E&S risks may materialize; and

iii. Ensure that material E&S risks are considered in the internal capital planning process.

b. Promote a culture that fosters environmentally and socially responsible business decisions. The Board shall ensure that sustainability implications are considered in the overall decision-making process;

c. Approve the Bank's ESRMS that is commensurate with the size, nature and complexity of operations and oversee its implementation. The Board shall ensure that the ESRMS is aligned with internationally and forms part of the enterprise-wide risk management (ERM) systems;

d. Ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients, and other stakeholders;

e. Adopt an effective organizational structure to ensure attainment and continuing relevance of sustainability objectives. The Board or the designated Board-level or management committee shall monitor the Bank's progress in attaining the sustainability objectives;

f. Monitor the progress of the Bank in meeting its E&S strategic objectives and targets and ensure that issues in meeting the same are addressed;

g. Institutionalize a capacity building program for the Board, all levels of management, and personnel to equip the Bank in identifying, measuring, monitoring, and controlling E&S risks. The Board shall likewise ensure that key personnel shall possess adequate knowledge, skills, and expertise necessary to perform their work;

h. Ensure that adequate resources are available to attain the Bank's sustainability objectives. The Board shall ensure that the members of the Board, SM, and personnel are regularly apprised of the developments on sustainability standards and practices; and

i. Adopt an effective communication strategy to inform both internal and external stakeholders of the Bank's E&S strategic objectives and targets;

j. Ensure that the sustainability agenda is integrated in the Bank's performance appraisal system;

k. Set out clear criteria involving decisions to finance high E&S risk sectors covering short, medium, and long-term horizons. The criteria shall consider the long-term financial interest of the Bank and its role in contributing to the sustainable goals and growth of the economy;

l. Ensure comprehensive discussion of credit related E&S risks of the Bank as well as deviations from strategic objectives and targets set;

m. Ensure that E&S risks are integrated in the operational risk management framework;and

n. Ensure that Bank's policies and procedures include the extent of engagement with counter parties, including suppliers and outsourced service providers, with regard to the adoption of sustainability principles, in accordance with the strategy.

o. Ensure that resources are adequate;

p. Define the frequency of monitoring the Bank's progress;

q. Promote a culture that fosters responsible business decisions within the organization; and

r. The sustainability agenda shall be integrated into the performance appraisal system.

iv-E. REPORTING PROCESS TO THE SENIOR MANAGEMENT AND TO THE BOARD OF DIRECTORS

To enhance the reporting process to the Senior Management and the Board of Directors, these shall include the following:

a. Progress of implementation of ESRMS and CLHUI's E&S Policies;

b. Material E&S Risks as these relate to Bank's Strategic Objectives, Credit Strategies and Risk Appetite.

c. Report on operational risk limit structure on internal threshold level to monitor progress report against business & strategy and risk appetite;

d. Results of the periodic testing on operational feasibility;

e. Results of stress testing exercise;

f. Results of Business Continuity Plan testing exercise;

g. Bank's exposure arising from credit operations which include among others, potential issues associated with the activities of its borrowers that may have material impact and the corresponding control measures to mitigate such risks.

h. Updates on E&S strategic objectives and targets.

i. Self-Assessment Function
Frequency of Report: Quarterly

iv-F. Senior Management

a. Senior Management's Duties and Responsibilities

1. Assess periodically the effectiveness of implementation and continuing relevance of said policies considering the developments in the business environment;

2. Facilitate the identification, assessment monitoring and mitigation of E&S risks. The Management shall ensure that the Bank takes a holistic approach in managing these risks aligned with the strategic objectives set by the Board;

3. Ensure that the bank activities are aligned with the overall E&S strategic objectives and targets;

4. Ensure adoption of methodologies and tools that will effectively identify, and quantify/measure, monitor and control E&S risks;

5. Ensure that policies, procedures, and processes are clearly and effectively communicated across the organization;

6. Assess consistency of operations and performance of personnel with the Bank's sustainability objectives;

7. Apprise the Board and/or relevant management committee, on a regular basis, on the Bank's exposure to E&S risks, which shall include potential issues associated with both internal and external activities of the Bank and the activities of its clients that may have material impact on the Bank's portfolio or reputation. Moreover, the SM shall report its progress in implementing the Bank's sustainability policies and ESRMS;

8. Ensure effective implementation of policies, procedures, and processes to identify, measure, monitor and control E&S risks arising from credit operations, both at the individual and portfolio levels;

9. Consider E&S factors in the credit underwriting and loan pricing frameworks as well as in determining allowance for credit losses;

10. Report periodically to the Board the Bank's exposures to E&S risks arising from credit operations, which shall include, among others, potential issues associated with the activities of its borrowers that may have material impact and the corresponding control measures to mitigate such risks;

11. Ensure that the reporting lines and the duties and responsibilities of personnel and officers in the Bank with respect to the management of E&S risks related to operations are clear, well-defined, and adequately documented;

12. Facilitate identification of E&S risks that may affect performance of key personnel and officers that could serve as source of reputational risk; and

13. Conduct an assessment, at least annually or as frequently as necessary, of the vulnerability of the Bank's systems, operations and branches/branch-lite units to physical risks and other disaster-related events. Such assessment may be conducted as part of the periodic assessment of the Bank's business continuity plan.

Moreover, the following shall be part of the senior management responsibilities, to wit;

a. The Management shall assess the continuing relevance of Sustainable Finance policies, guidelines and procedures including the specific tools/methodologies to measure, monitor, and control E&S risks.

b. Specific frequency of reporting to the Board on the exposure to E&S risks and progress of implementation of sustainability policies.

The frequency of reporting to the Board on the exposure to E&S risks shall be quarterly

iv-G. Compliance Management

To ensure independence, it shall have direct reporting line to the Board's Audit Committee on all matters related to Sustainable Finance compliance and their risk management.

The Compliance Office shall be responsible for the following functions:

1. Ensure compliance by all responsible employees with Sustainable Finance rules and this ESRM. It shall conduct periodic ESRM review, which covers, among others, evaluation of: existing process, policies and procedures including on-going monitoring of the performance of employees involved in the Sustainable Finance activities; reporting channel.

2. Inform all responsible officers and employees of all resolutions, circulars and other issuance's by the BSP in relation to Sustainable Finance.

3. Organize the timing and content of ESRM training of employees including regular refresher training.

4. Regularly submit reports to the Audit Committee to inform them of management's action to address deficiencies noted in the implementation of Sustainable Finance.

5. Monitor status of commitments made to regulators, external and internal audit to address issues raised.

6. Conduct periodic compliance checking which covers, among others, evaluation of Sustainable Finance existing processes, policies and procedures of concerned units. It shall also report compliance findings to the audit committee or any board- level committee.

The Compliance Testing Activity shall include the review of the following:

a. Implementation of sustainability principles, including those covering E&S risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of the bank.

b. E&S risk appetite of the Bank.

c. Guidance in assessing E&S risks in the bank's operations, products and services, transaction, activities, and operating environment.

d. Tools for monitoring E&S risks as well as the compliance of the bank and its counter-parties with sustainability-related standards, laws and regulations.

e. The measures that should be taken in case of breaches in limits or thresholds or non-compliance with sustainability-related standards, laws and regulations.

f. Stress testing exercises incorporating E&S Risks covering both short-term and long-term horizons following the principles and requirements provided under Sec. 151. 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.

g. Duties and responsibilities of all personnel in the organization in managing E&S risks.

The Compliance Testing Activity shall be conducted annually.

iv-H. Internal Audit

Internal audit, independently evaluates the sustainable risk management and controls, and discharges its responsibility to the Audit Committee through periodic evaluations of the effectiveness of compliance with ESRM.

Internal Audit is responsible for independently reviewing the design and operation of the Sustainable Finance Risk Management Systems.

The internal audit function associated with Sustainable Finance should be conducted by qualified personnel who are independent of the office being audited.

It must have the support of the board of directors and senior management and have a direct reporting line to the board or a board-level audit committee.

It shall be responsible for the periodic and independent evaluation of:

1. the risk management

2. Degree of adherence to internal control mechanisms related to the sustainable finance process.

3. It shall include determination of the efficiency of the functionalities of the ESRM system.

4. The results of the internal audit shall be:

a. Timely communicated to the board of directors

b. Open for scrutiny by BSP examiners in the course of the regular or special examination without prejudice to the conduct of its own evaluation whenever necessary.

5. Appropriate monitoring of corrective actions taken by the different business units concerned.

B. Risk Assessment

a. Sustainable Finance Risk Assessment

i. Consistent with the risk based approach (RBA), CLRB shall identify, understand and assess its sustainable risks, arising from:

1. customers;
2. geographic areas of operations and customers;
3. products and services;
4. transactions

ii. The assessment methodology shall be appropriate to the nature of operations and complexity of the business of CLRB. The sustainable finance risk assessment shall:

1. consider all relevant risk factors
2. adequately document results and findings; and
3. be updated periodically or as necessary.

The sustainable finance risk assessment shall be conducted, at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous sustainable finance risk assessment, or other relevant sustainable finance developments that may have an impact on the operations of CLRB.

Based on the risk assessment, CLRB shall take appropriate measures to manage and mitigate sustainable finance which should be incorporated in its ESRM. The risk assessment shall be made available to the BSP during examination or in other circumstances deemed necessary as part of continuous supervision.

b. New Products and Business Practices Risk Assessment

i. CLRB shall identify and assess the sustainable finance risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre- existing products.

ii. Such risk assessment should be an integral part of product or service development process and should take place prior to the launch of the new products, business practices or the use of new or developing technologies. CLRB shall take appropriate measures to manage and mitigate the identified risks.

iii. The risk assessment, which should form part of the product proposal documents, shall be properly documented and cleared with the Risk Management Head and Compliance Office Head prior to launching and/or implementation.

C. CAPACITY BUILDING PLAN PROGRAM

To institutionalize a capacity building plan program for the Board of Directors, all levels of management and personnel to equip CLHUI in identifying, measuring, monitoring, and controlling E&S risks to ensure that key personnel shall possess adequate knowledge, skills, and expertise necessary to perform their work.

The said program shall promote a culture that fosters responsible business decisions within the organization

D. TRAININGS

a. All directors, officers and staff of CLRB must attend the Environmental and Social Risk Management (ESRM) training.

b. The ESRM training can be taken internally or externally, either via live session or webinar.

i. All new hires shall attend the ESRM training within the 90 days from date hired.

ii. All employees are required to take a refresher course based on the frequency indicated below. In cases where there are new developments brought about by new rules and regulation issued by the BSP and/or other regulatory bodies. CLRB shall immediately cascade these information to its responsible directors, officers and employees. Such cascading of information shall be documented, either electronically or in print.

1. Annually for customer-facing employees.
2. Every three (3) years for backroom/support employees

iii. The members of the Board of Directors and Senior Management shall attend the ESRM training at least once every 3 years.

c. The Risk Management Division shall be responsible for the following:

i. Updating training programs and materials, and making these available during periodic or special BSP examination.

ii. Designing the training programs

iii. Updating the training materials for any new/change in the regulations and/or policies.

iv. Dissemination of ESRM bulletins and reminders on ESRM related subjects,including emerging issues and concerns.

The Compliance Office shall serve as alternate in the absence of the Risk Management Division.

d. HR Training shall be responsible for the following:

i. Preparation and scheduling of training sessions, in coordination with the subject matter experts.

ii. Monitoring of ESRM training attendance of all directors and employees of CLRB.

iii. Ensuring that everybody has attended the training in accordance with the required frequency as stated herein.

e. It is the primary responsibility of each employee of CLRB to ensure compliance with the required frequency of ESRM training.

f. The line management shall ensure that employees within their jurisdiction shall attend such courses on ESRM.

E. Guidelines on How the Board would ensure that Resources are Adequate

1) The Management Committee shall monitor the progress in attaining its objectives in ensuring that manpower resources are adequate.
2) The HRD shall present the following reports such as but not limited to recruitment, headcount reports, on boarding /boarded and among others to the Management Committee on a monthly basis.
3) The Management shall apprise the Board on the development with regard to the update on manpower that facilitates the banks' development and implementation of the ESRM System on a regular basis.

<u>Measures to be taken in case of any breaches in E&S limits/thresholds, or non-compliance with the sustainability standards and regulations</u>

1) The Credit Management Division Head shall be responsible to monitor and report in case of any breaches in E&S limits/threshold to the Management Committee and Risk Oversight Committee quarterly. This is to ensure that they are aware of the breaches as well as emerging issues and complex or controversial cases

2) The Compliance Office and Audit Department shall be responsible to apprise the Audit Committee on any breaches in sustainability standards and regulations. (Please see Compliance Management and Internal Audit Functions as specified in this Framework).

F. Guidelines on the Conduct of Stress Testing Exercise or Scenario Analysis

1) The Liquidity Manager shall be responsible for the conduct of stress testing activity **<u>quarterly.</u>** This shall be reported to the Management Committee and to the Asset and Liability Committee (ALCO).

2) The stress testing activity shall be linked to the risk appetite and business strategies of the Bank.

3) The stress test exercise may initially focus on mortgage exposures and those secured by real estate. Banks should then project the expected credit losses on such portfolios under a typhoon followed by a flood scenario that will affect the Bank's capital and liquidity planning and management exercises, as well as business continuity and disaster recovery plans.

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G. Tools to monitor E&S risks and compliance of the Bank and its counter-parties with sustainability-related standards, laws, and regulations

The Bank had implemented the new ECL model this is to estimate potential credit risk. This composed of three risk measure components namely Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Credit Management Division is responsible for the implementation of the ECL Model.

The overall assessment of the Bank's ECL model conducted by the P&A is satisfactory. This means the ECL model can be implemented and/or used for the financial reporting of the Bank.

H. Process for Project Evaluation and Selection

The Bank will establish a Sustainable Finance Team thru its Management Committee (the "Team"), which will be responsible for evaluating and selecting the eligible projects or activities for its green loans and social loans. The Team will consist of representatives from various departments of the Bank, such as credit management, risk management, business development, corporate affairs, audit and compliance, etc.

The Team will apply the following process for project evaluation and selection:

- Screening: The Team will screen potential projects or activities based on their alignment with the Bank's sustainability strategy and objectives, as well as their compliance with relevant laws, regulations and standards.

- Assessment: The Team will assess the environmental or social benefits of potential projects or activities based on predefined criteria and methods. The Committee will also identify and manage any perceived, actual or potential environmental or social risks associated with the potential projects or activities.

- Approval: The Team will approve the eligible projects or activities based on their environmental or social impact potential, financial viability, risk profile and alignment with the eligibility criteria. The Team will also document the rationale and evidence for the Management Committee-approval decisions.

The Team thru Management Committee will meet regularly to review and update the list of eligible projects or activities based on new information or developments.

I. Guidelines on Integration of Sustainability Agenda into the Performance Appraisal System

a. Introduction

This document outlines the guidelines for incorporating sustainable finance in the key result areas (KRAs) of the Cebuana Lhuillier Rural Bank's (CLHUI) personnel. The KRAs are the measurable outcomes or deliverables that each employee is expected to achieve within a given period of time. The KRAs are aligned with the CLHUI's strategic objectives and performance indicators.

CLHUI recognizes that sustainable finance is a key component of its business strategy and competitive advantage. The bank also acknowledges that sustainable finance requires the involvement and commitment of all its personnel across different levels and functions. Therefore, CLHUI aims to integrate sustainable finance in the KRAs of its personnel, in order to incentivize and reward their contribution to the bank's sustainability objectives.

CLHUI will apply these guidelines to all its personnel across its business segments, units and/or geographic regions. The bank will also review and update these guidelines periodically to ensure that they remain relevant and effective in achieving its sustainability objectives.

b. Principles

CLHUI will adhere to the following principles when incorporating sustainable finance in the KRAs of its personnel:

- Relevance: The sustainable finance KRAs should be relevant to the role and function of each employee, as well as to the bank's sustainability strategy and objectives.
- Specificity: The sustainable finance KRAs should be specific and clear, defining what is expected from each employee and how it will be measured and evaluated.
- Measurability: The sustainable finance KRAs should be measurable and quantifiable, using appropriate indicators and metrics that reflect the environmental or social impact of the bank's lending activities.

- Achievability: The sustainable finance KRAs should be achievable and realistic, taking into account the available resources, capacities and constraints of each employee and the bank as a whole.

- Timeliness: The sustainable finance KRAs should be timely and time-bound, setting deadlines or milestones for each employee to achieve their targets or deliverables.

c. Process

CLHUI will follow a systematic process for incorporating sustainable finance in the KRAs of its personnel. The main steps are as follows:

- ***Identification:*** The Human Resources Department in coordination with heads/ managers of different units will identify the relevant personnel who are involved or have an influence on the bank's sustainable finance activities, such as business development, credit management, liquidity, corporate affairs, audit and compliance, etc.

- ***Consultation:*** The Human Resources Department will consult with the relevant personnel and their supervisors or managers to determine their current roles and responsibilities, performance expectations and development needs related to sustainable finance.

- ***Formulation:*** The Human Resources Department will formulate the sustainable finance KRAs for each relevant employee based on their consultation results, as well as on the bank's sustainability strategy and objectives. The formulation will follow the SMART criteria (Specific, Measurable, Achievable, Relevant and Timely).

- ***Approval:*** The Human Resources Department will submit the proposed sustainable finance KRAs for each relevant employee to their supervisors or managers for approval. The approval authority will depend on the level and function of each employee.

- ***Communication:*** The Human Resources Department will communicate the approved sustainable finance KRAs to each relevant employee and ensure that they understand their expectations and obligations. The communication will also include information on how their performance will be measured and evaluated, as well as on how they can access training and support related to sustainable finance.

- ***Implementation:*** Each relevant employee will implement their sustainable finance KRAs throughout their performance period. This will involve carrying out their tasks and activities related to sustainable finance, reporting on their progress and achievements, seeking feedback and guidance from their supervisors or managers, etc.

- ***Evaluation:*** The Human Resources Department will evaluate the performance of each relevant employee based on their sustainable finance KRAs at the end of their performance period. The evaluation will involve collecting evidence and data on their outputs and outcomes, conducting performance reviews with their supervisors or managers, providing feedback and recognition, identifying strengths and weaknesses, etc.

- ***Improvement:*** The Human Resources Department will use the evaluation results to identify areas for improvement and opportunities for development related to sustainable finance for each relevant employee. This may involve providing training or coaching, assigning new tasks or projects, revising or updating their sustainable finance KRAs, etc.

7. Corporate Information

a. Organizational Structure

Name of Officers	Position
Dennis O. Valdes	President
Jimmy S. Ang	Vice President and Head, Retail Banking Division
Charm O. De Guzman	Head, Credit Operations Division
Ernesto R. Raneses	Head, Bank Operations Division
Lauro T. Cruz Jr.	OIC Head, ICT
Lorna Z. Tecson	Head, Digital Services Division
Edel P. Regato	Head, Accounting Department
George S. Agas	Chief Compliance Officer/ OIC Head, Risk Management
Anngelie L. Camerino	Business Manager, Davao Branch
Sheila R. Pastor	Business Manager, Cebu Branch
Josephine M. Ramos	Business Manager, Jupiter Branch
Azeelle F. Mauleon	Business Manager, Calatagan Branch
Reynald Allan S. Valdez	Business Manager, Bacoor Branch
Elma B. Reyes	Head, Housing and Business Lending
Jonathan G. Lacosta	Head, Teachers Lending Department
Jeffrey A. Saccuan	Head, Motorcycle Lending Department
Revena T. Fernandez	Head, Loan Operations Department
Eddiemar M. Gutierrez	Head, Loan Management Department
Conrad T. Dupaya Jr.	Head, Transaction Banking Department
Gilbert D. Marpuri	Head, Project Development Department
Genalyn H. Cruz	Head, Digital Channels Department
Loraine Mae M. de Chavez	Head, Cash Agent Department
Dennis L. Jonota	Head, Collection Remedial & Asset Management
Marissa A. Wong	Head, Cash Operations Department
Antonio M. Navarette Jr.	Head, Information Security Department
Mary Rose T. Sapida	Head, Legal Department
Clarissa C. Pitallano	Head, Liquidity Department
Gerald Joseph D. Navarro	Head, Internal Audit Department
Kathleen T. Farinas	Head, AML Department
Reymark C. Eufan	Head, Fraud Department

Please refer to the next page for the Organizational Structure of the Bank showing reporting lines and interrelationship of positions

Table of Organization

(Please refer to the following Table of Organization)

Board of Directors, Committees and Office of the President, Risk, Compliance, AML and Audit

Branch Operations Division

Business Banking Division

Credit Operations and Management Division

Digital Sales Division

Information and Technology Division

As part of the Bank's continuous efforts to improve its organizational structure and efficiency, a revised Table of Organization that reflects the future needs of Cebuana Lhuillier Bank will be submitted, for approval by the Board of Directors in their meeting on January 2023. Upon approval, the revised table of organization will be effective immediately and will be communicated to all relevant stakeholders. The Bank believes that the revision will enhance its operational performance and customer satisfaction.

b. List of Major Stockholders (with 2% and up of Stock-holdings) of the Bank, including Nationality, Percentage of Stock-holdings and Voting Status

Name of Stockholder	Nationality	Percentage of Ownership	Voting Status
Ambassador Philippe J. Lhuillier	**Filipino**	**37.14%**	**Voting**
Edna D. Lhuillier	**Filipino**	**27.86%**	**Voting**
Jean Henri D. Lhuillier	**Filipino**	**35%**	**Voting**

c. List and Description of Products and Services Offered

Deposit Products

MicroSavings | First step to easy savings, with low initial deposit and no maintaining balance

Regular Savings | Regular passbook-based savings account that can be withdrawn from anytime

Checking Accounts| Checking account with low maintaining balance requirement

Special Savings | Term deposit savings account that offers premium rates with flexible maturity period This kind of deposit comes with a passbook for ease of record-keeping and monitoring of account transactions.

Time Deposits | Accounts which earn premium rates at preferred maturity period

Loans Products

Consumer Loans

Teachers Loan | financial assistance to non-teaching and teaching personnel under DepEd, offering them funds for various purposes such as personal expenses or professional development

Motorcycle Loan | financial assistance for individuals who wish to purchase motorcycles for personal or business use

Housing Loan | There are two types of Housing Loan. First is the Developer-Generated Housing Loan and the other one is Home Loan Direct.

Developer-Generated Housing Loan is a financing arrangement in which a bank collaborates with accredited real estate developers to provide loans to homebuyers, allowing them to fully pay the remaining balance to the developer, with the bank disbursing the funds directly to the developer on behalf of the borrower.

Home loan direct is a type of financing provided by a bank directly to individuals or homeowners who require funding for purchasing, constructing, or renovating a property, with the loan secured by collateral such as the property itself or other assets owned by the borrower.

Employee Salary Loan | aims to provide financial assistance to employees for their personal needs while ensuring convenient repayment through salary deduction

Business Loans

Microfinance Loans | aims to provide financial assistance to Individual Business Owners or Micro Enterprises with total assets of not more than Php 3 Million to support business growth and development .

SME Loans | Designed to meet the financing needs of small and medium-sized enterprises for purposes including business expansion, working capital, purchase of equipment or machinery, inventory management, and infrastructure development, among others. Depending on loan purpose, the bank may grant either the Term Loan or Credit Line.

Agri-Agra Loans | A variant of Business Loan that provide financial assistance to enterprises operating within the value chain of Agriculture, Fisheries and Forestry Sector

Multi-Purpose Loans | A multi-purpose loan is a type of business loan that provides funds to businesses for at least one purpose or various purposes, such as working capital, expansion, equipment purchase, or debt consolidation, offering flexibility in its use to meet the specific needs of the business.

Digital Products

E-Money - Virtual cash featured which can be enrolled to 24K plus card across all 2,500 Cebuana Lhuillier Pawnshop branches nationwide. This provides better, secure, and convenient electronic services. E-Money can be used for the following transactions: Remit money, buy e-Load, cash in, and cash out.

ATM Services - Deployment of ATMs at CLRB bank branches for BancNet transactions and POS terminals on almost 3,000 Cebuana Lhuillier Pawnshop branches nationwide for Cash Agent transactions. This includes issuance of 24K Debit Card, first debit card to cater the financial needs of the under-served market as well as basic services such as deposit, withdrawal, requests etc.

Pesonet and Instapay – enable funds transfer to/ from other banks via corporate and individual clients.

d. **Official Website of the Bank**

The Bank's website is **www.cebuanalhuillierbank.com**

e. **List of banking units as of December 31, 2022:**

Bank Office	Location	Contact Numbers
Head Office	160 Zapote Road, Zapote 1, Bacoor City, Cavite	(046) 417-33-66
Calatagan Branch	Barangay Tanagan, Calatagan, Batangas	(046) 417-36-94
Jupiter Branch	156 Jupiter St. corner Comet St., Bel-air, Makati City	(002) 7-759-98-88
Branch-Lite Unit (BLU – Imus)	Aguinaldo Highway corner Tanzang Luma, Imus City, Cavite	(046) 474-01-00
Cebu Branch	PJL Corporate Center II #6 Acacia St., Brgy.Kamputhaw, Cebu City	(032)-236-07-50
Davao Branch	147 Mc Arthur Highway cor. Juna Avenue, Juna Subdivision, Brgy. Matina, Talomo District, Davao City	(082)-221-6504
BLU – Nasugbu	NF1 Savemore Market J.P. Laurel St. Brgy. Poblacion Nasugbu, Batangas	(043)-416-00-20

8. Audited Financial Statement (AFS) with Auditor's Opinion (See Annex A)

Compliance with Appendix 63 of the MORB
(Disclosures in the Annual Reports and Published Statement of Condition)

A. Capital Structure and Capital Adequacy

		2022 (in Php Millions)	2021 (in Php Millions)
1	Tier 1 Capital		
	Paid up Common Stock	200.000	100.000
	Deposit for Common Stock Subscription	0	100.000
	Retained Earnings	190.833	141.315
	Total Tier 1 Capital	390.833	341.315
	Deferred Tax Asset	(16.993)	(15.442)
	Net Tier 1 Capital	373.840	325.873
2	Tier 2 Capital		
	General Loan Loss Provision	9.007	9.007
	Total and Net Tier 2 Capital	9.007	9.007
3	Deductions from Tier 1 and Tier 2 Capital		
	Deferred Tax Asset (net)	(16.993)	(15.442)
	Total Deduction	(16.993)	(15.442)
4	Total Qualifying Capital	382.847	334.880
5	Capital Requirements for Credit Risk	2,707.880	1,458,065
6	Capital Requirements for Market Risk	-	-
7	Capital Requirements for Operational Risks	224.369	135.633
8	Total Capital Adequacy Ratio	14.14%	22.97%
	Tier 1 Capital Adequacy Ratio	13.81%	22.35%

CEBUANA LHUILLIER BANK

Position Chart as of September 2022

*Each Branch will have one (1) of the following:Business Manager, Branch Cashier, New Accounts Assistant, and Teller.

*Jupiter Branch has two (2) Tellers and Jewelry Appraiser - in lieu of New Accounts Assistant

Atty. Maria Rosario E. Эreño

Assistant Corporate Secretary - CLRB

Reviewed and Recommended by:

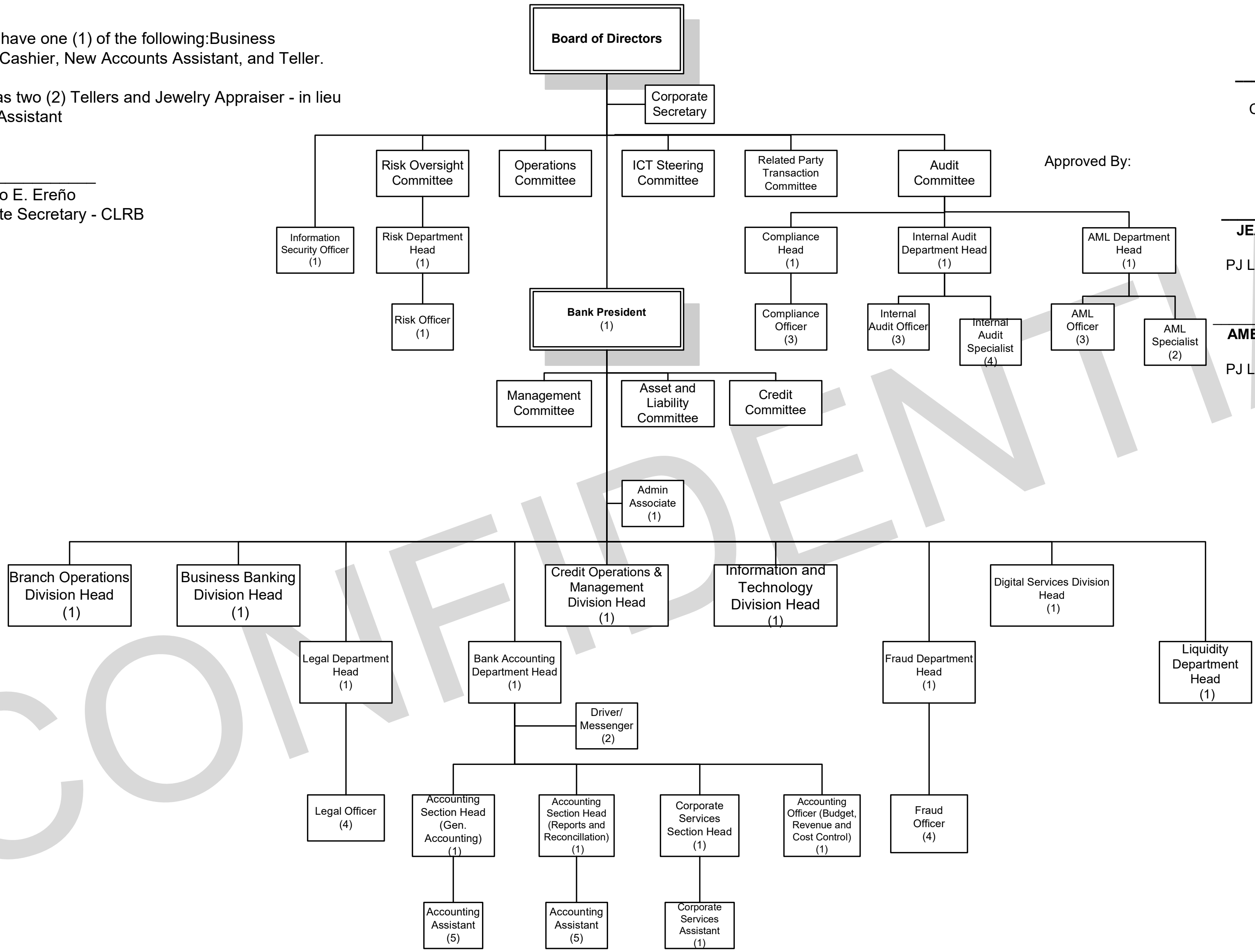
DENNIS O. VALDES
Bank President

JO-ANN Y. TACORDA
Chief Administrative Officer

Approved By:

JEAN HENRI D. LHUILLIER
Chief Executive Officer
PJ Lhuillier Group of Companies

AMB. PHILIPPE J. LHUILLIER
Chairman
PJ Lhuillier Group of Companies



kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

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CEBUANA LHUILLIER BANK

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Reviewed and Recommended by:

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Bank President

JO-ANN Y. TACORDA
Chief Administrative Officer

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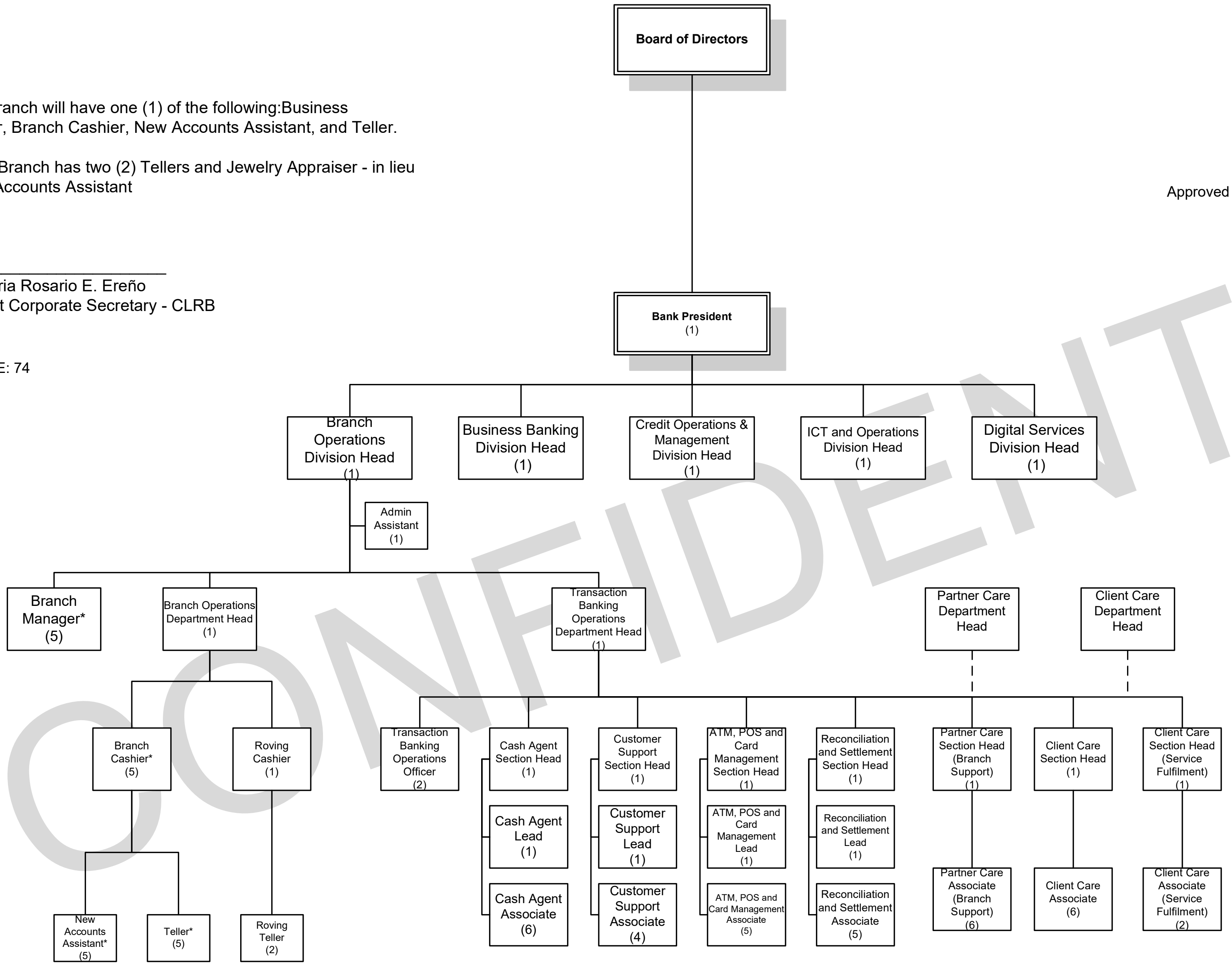
Approved By:

Atty. Maria Rosario E. Ereño
Assistant Corporate Secretary - CLRB

JEAN HENRI D. LHUILLIER
Chief Executive Officer
PJ Lhuillier Group of Companies

AMB. PHILIPPE J. LHUILLIER
Chairman
PJ Lhuillier Group of Companies

Total FTE: 74



kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

CEBUANA LHUILLIER BANK

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PJ Lhuillier Group of Companies

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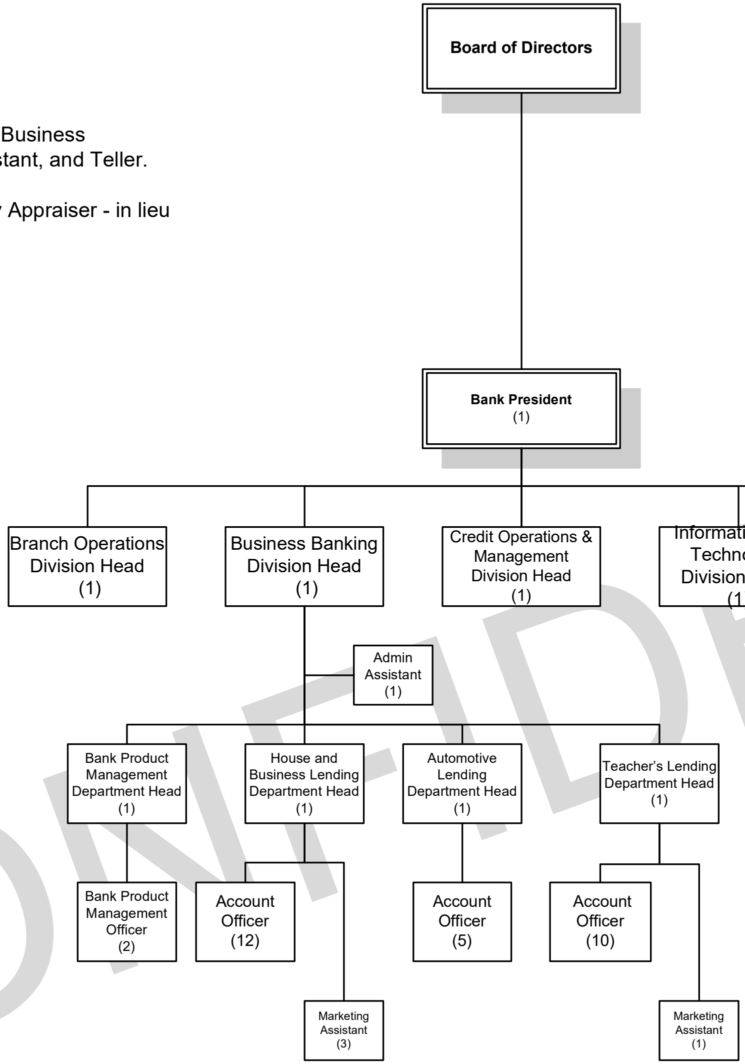
Atty. Maria Rosario E. Ereño
Assistant Corporate Secretary - CLRB

Total FTE: 39



kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

CEBUANA LHUILLIER BANK

Position Chart as of September 2022

Reviewed and Recommended by:

DENNIS O. VALDES
Bank President

JO-ANN Y. TACORDA
Chief Administrative Officer

Approved By:

JEAN HENRI D. LHUILLIER
Chief Executive Officer
PJ Lhuillier Group of Companies

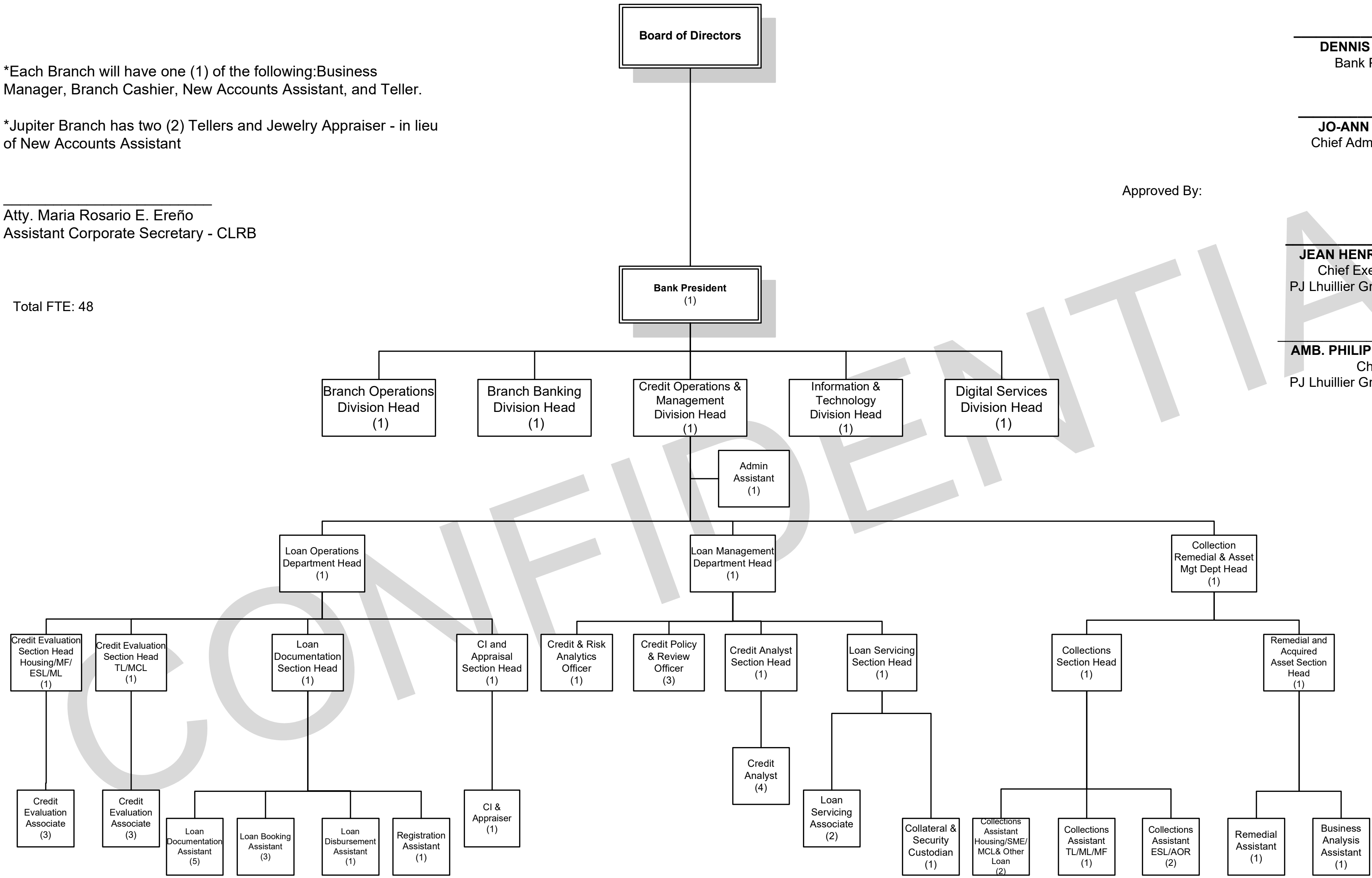
AMB. PHILIPPE J. LHUILLIER
Chairman
PJ Lhuillier Group of Companies

*Each Branch will have one (1) of the following:Business Manager, Branch Cashier, New Accounts Assistant, and Teller.

*Jupiter Branch has two (2) Tellers and Jewelry Appraiser - in lieu of New Accounts Assistant

Atty. Maria Rosario E. Ereño
Assistant Corporate Secretary - CLRB

Total FTE: 48



kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

CEBUANA LHUILLIER BANK

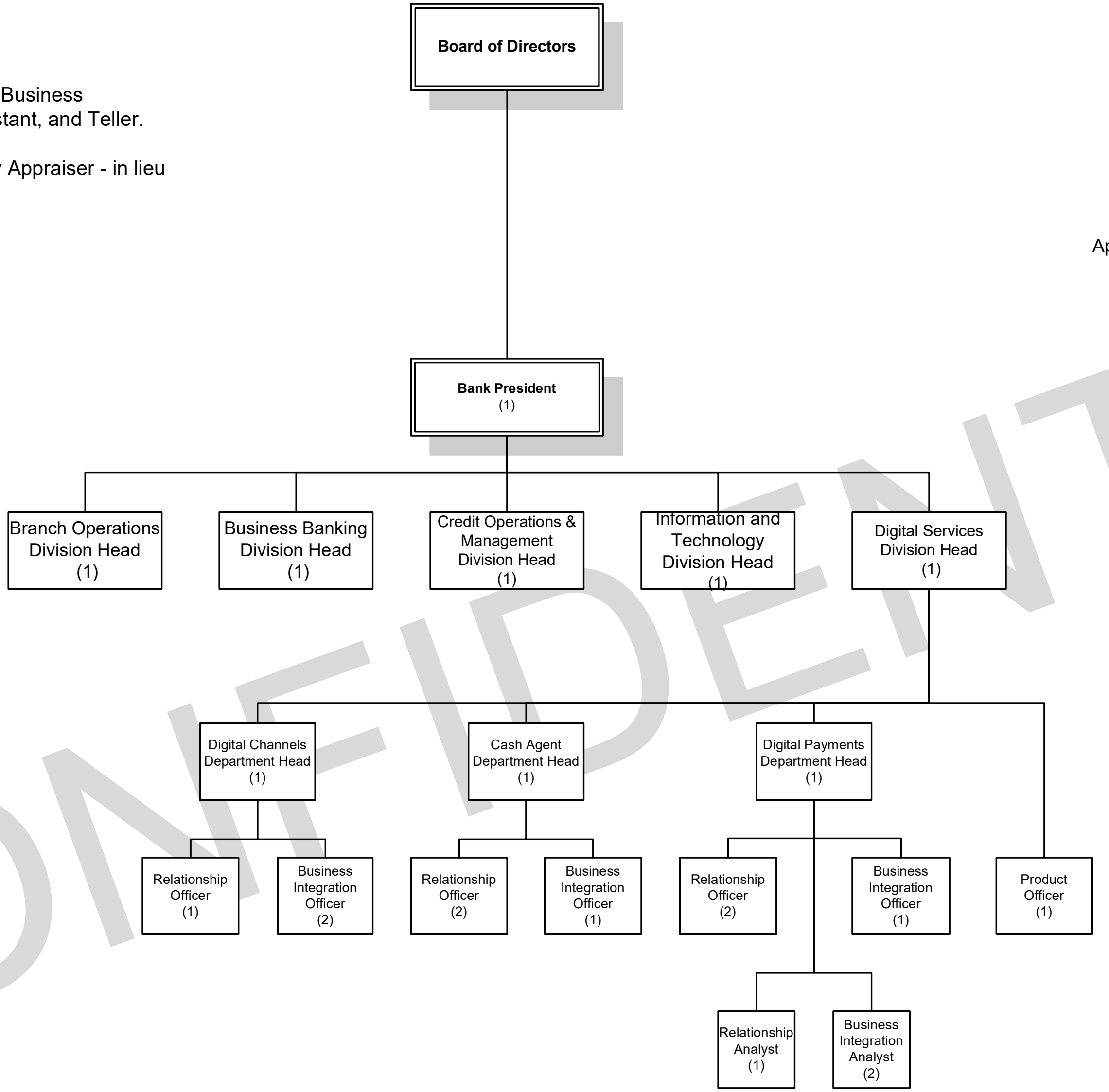
Position Chart as of September 2022

*Each Branch will have one (1) of the following:Business Manager, Branch Cashier, New Accounts Assistant, and Teller.

*Jupiter Branch has two (2) Tellers and Jewelry Appraiser - in lieu of New Accounts Assistant

Atty. Maria Rosario E. Ereño
Assistant Corporate Secretary - CLRB

Total FTE: 17



Reviewed and Recommended by:

DENNIS O. VALDES
Bank President

JO-ANN Y. TACORDA
Chief Administrative Officer

Approved By:

JEAN HENRI D. LHUILLIER
Chief Executive Officer
PJ Lhuillier Group of Companies

AMB. PHILIPPE J. LHUILLIER
Chairman
PJ Lhuillier Group of Companies

kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

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CEBUANA LHUILLIER BANK

Position Chart as of September 2022

Reviewed and Recommended by:

DENNIS O. VALDES
Bank President

JO-ANN Y. TACORDA
Chief Administrative Officer

*Each Branch will have one (1) of the following:Business Manager, Branch Cashier, New Accounts Assistant, and Teller.

*Jupiter Branch has two (2) Tellers and Jewelry Appraiser - in lieu of New Accounts Assistant

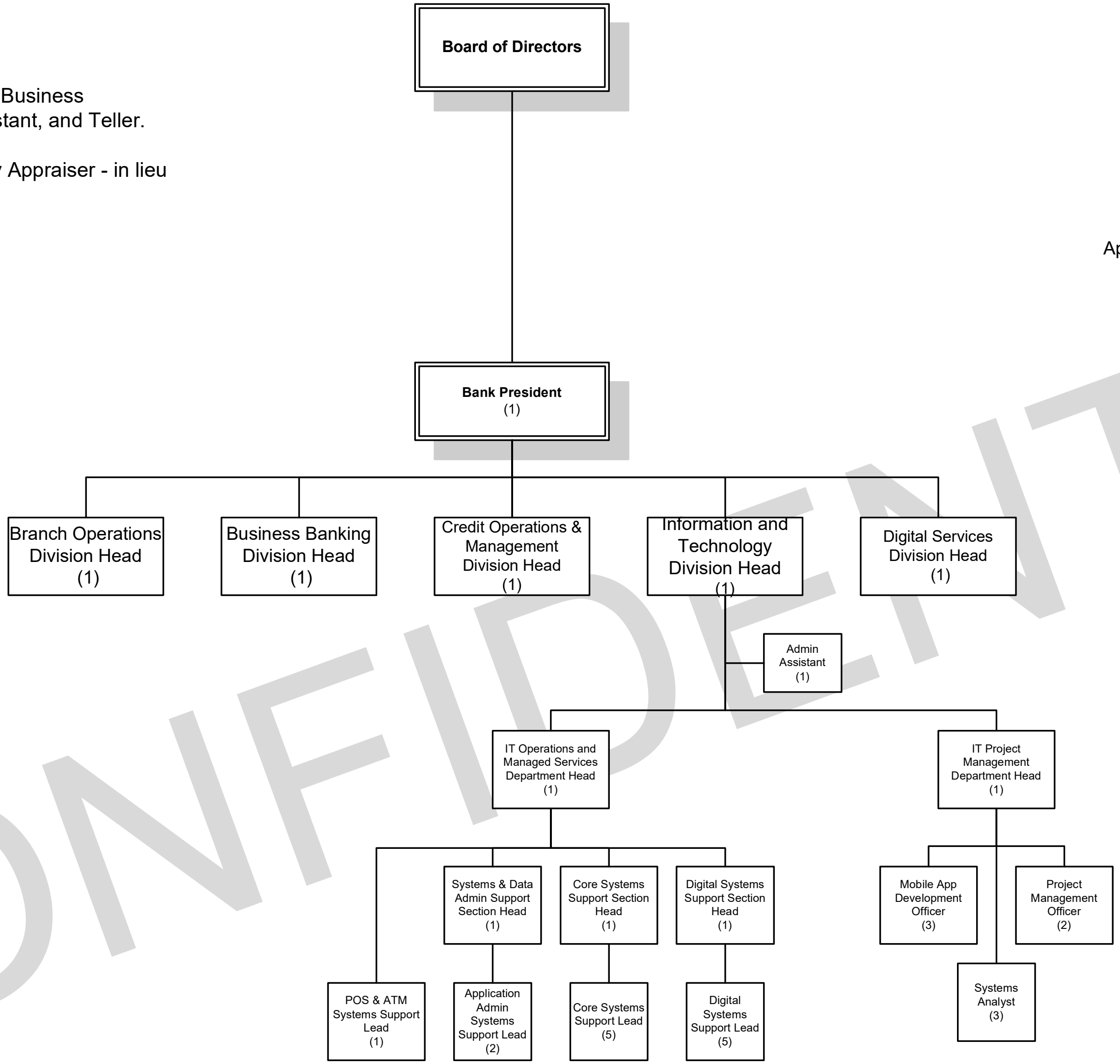
Atty. Maria Rosario E. Ereño
Assistant Corporate Secretary - CLRB

Total FTE: 28

Approved By:

JEAN HENRI D. LHUILLIER
Chief Executive Officer
PJ Lhuillier Group of Companies

AMB. PHILIPPE J. LHUILLIER
Chairman
PJ Lhuillier Group of Companies



kbcatinguel
Prepared by: KBCatinguel/BFNarvaez/MVAValientes

P&A
Grant Thornton

Financial Statements and Independent Auditors' Report

Cebuana Lhuillier Rural Bank Inc.

December 31, 2022 and 2021

P&A Grant Thornton

YEARS 35
Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

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

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors
Cebuana Lhuillier Rural Bank Inc.
PJ Lhuillier Inc. Bldg., 160 Zapote Road, Zapote I,
Bacoor City, Cavite

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cebuana Lhuillier Rural Bank Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Bank's financial statements of the business disruption brought about by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2022 and 2021 required by the Bangko Sentral ng Pilipinas and for the year ended December 31, 2022 by the Bureau of Internal Revenue as disclosed in Notes 24 and 25, respectively, to the financial statements are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 9566640, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 90741-SEC (until financial period 2025)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-019-2020 (until Dec. 21, 2023)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 14, 2023

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#BoldPerspectives #DivergentThinking #ForgingPaths

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

T +63 2 8988 2288

Supplemental Statement of Independent Auditors

The Board of Directors
Cebuana Lhuillier Rural Bank Inc.
PJ Lhuillier Inc. Bldg., 160 Zapote Road, Zapote I,
Bacoor City, Cavite

We have audited the financial statements of Cebuana Lhuillier Rural Bank Inc. (the Bank) for the year ended December 31, 2022, on which we have rendered the attached report dated May 2, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has three stockholders owning 100 or more shares each of the Bank's capital stock as of December 31, 2022, as disclosed in Note 18 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 9566640, January 3, 2023, Makati City
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 14, 2023

CEBUANA LHUILLIER RURAL BANK INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
RESOURCES			
CASH AND OTHER CASH ITEMS	7	**P 22,941,395**	P 12,200,533
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**593,709,080**	154,616,917
DUE FROM OTHER BANKS	8	**495,680,338**	313,540,232
INVESTMENT SECURITIES AT AMORTIZED COST	9	**3,202,656,825**	3,648,618,749
LOANS AND OTHER RECEIVABLES - Net	10	**1,692,297,080**	972,870,998
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**80,520,784**	68,335,792
INVESTMENT PROPERTIES - Net	14	**14,628,376**	1,930,411
RIGHT-OF-USE ASSETS - Net	12	**9,263,980**	8,784,258
INTANGIBLE ASSETS - Net	13	**128,696,855**	111,969,289
DEFERRED TAX ASSETS - Net	21	**16,992,843**	15,442,426
OTHER RESOURCES - Net	15	**93,315,110**	113,246,059
TOTAL RESOURCES		**P 6,350,702,666**	P 5,421,555,664
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	16	**P 5,687,430,244**	P 4,976,874,479
OTHER LIABILITIES			
Accrued expenses and other liabilities	17	**249,888,826**	88,411,706
Lease liabilities	12	**9,969,678**	9,433,742
Retirement benefit obligation	20	**12,581,384**	5,530,145
		272,439,888	103,375,593
Total Liabilities		**5,959,870,132**	5,080,250,072
CAPITAL FUNDS	18	**390,832,534**	341,305,592
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 6,350,702,666**	P 5,421,555,664

See Notes to Financial Statements.

CEBUANA LHUILLIER RURAL BANK INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
INTEREST INCOME			
Loans and other receivables	10	**P 151,444,969**	P 99,360,253
Investment securities at amortized cost	9	**89,181,272**	68,301,006
Due from other banks	8	**1,667,748**	4,584,804
		242,293,989	172,246,063
INTEREST EXPENSE			
Deposit liabilities	16	**21,499,711**	24,806,186
Lease liabilities	12	**570,188**	583,748
Retirement benefit obligation	20	**282,037**	155,998
		22,351,936	25,545,932
NET INTEREST INCOME		**219,942,053**	146,700,131
IMPAIRMENT LOSSES	10	**16,042,650**	23,619,768
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**203,899,403**	123,080,363
OTHER OPERATING EXPENSES	19	**347,312,682**	286,581,782
OTHER OPERATING INCOME	19	**215,027,795**	219,452,625
PROFIT BEFORE TAX		**71,614,516**	55,951,206
TAX EXPENSE	21	**19,697,383**	19,109,851
NET PROFIT		**51,917,133**	36,841,355
OTHER COMPREHENSIVE LOSS			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement of retirement benefit obligation		**3,186,922**	-
Tax income (expense)	21	**(796,731)**	(9,956)
		(2,390,191)	(9,956)
TOTAL COMPREHENSIVE INCOME		**P 49,526,942**	P 36,831,399

See Notes to Financial Statements.

CEBUANA LHUILLIER RURAL BANK INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Capital Stock (see Note 18)	Deposit on Future Stock Subscription (see Note 18)	Surplus: General Loan Loss Reserves (see Note 18)	Surplus: Other Reserves (see Note 18)	Surplus: Free (see Note 18)	Surplus: Total	Remeasurement of Retirement Benefit Obligation (see Note 20)	Total Equity
Balance at January 1, 2022	P 100,000,000	P 100,000,000	P -	P 40,000,000	P 101,454,925	P 141,454,925	(P 149,333)	P 341,305,592
Issuance of capital stock	100,000,000	(100,000,000)	-	-	-	-	-	-
Appropriation of retained earnings to general loan loss reserves	-	-	4,770,300	-	(4,770,300)	-	-	-
Total comprehensive income (loss) for the year	-	-	-	-	51,917,133	51,917,133	(2,390,191)	49,526,942
Balance at December 31, 2022	**P 200,000,000**	**-**	**P 4,770,300**	**P 40,000,000**	**P 148,601,758**	**P 193,372,058**	**(P 2,539,524)**	**P 390,832,534**
Balance at January 1, 2021	P 100,000,000	P -	P -	P 40,000,000	P 64,613,570	P 104,613,570	(P 139,377)	P 204,474,193
Reclassification of deposits on future stock subscription	-	100,000,000	-	-	-	-	-	100,000,000
Total comprehensive income (loss) for the year	-	-	-	-	36,841,355	36,841,355	(9,956)	36,831,399
Balance at December 31, 2021	P 100,000,000	P 100,000,000	P -	P 40,000,000	P 101,454,925	P 141,454,925	(P 149,333)	P 341,305,592

See Notes to Financial Statements.

CEBUANA LHUILLIER RURAL BANK INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 71,614,516	P 55,951,206
Adjustments for:			
Depreciation and amortization	19	61,200,966	39,823,695
Impairment losses	10	16,042,650	23,619,768
Interest expense on lease liabilities	12	570,188	583,748
Gain on recovery of impairment of non-financial assets	15	-	(41,336)
Operating profit before working capital changes		149,428,320	119,937,081
Increase in loans and other receivables		(746,080,457)	(450,519,337)
Decrease (increase) in investment properties		(12,697,965)	455,405
Decrease (increase) in other resources		28,786,244	(75,948,251)
Increase in deposit liabilities		710,555,765	776,370,530
Increase (decrease) in accrued expenses and other liabilities		165,341,437	(92,381,764)
Cash generated from operations		295,333,344	277,913,664
Cash paid for taxes		(29,430,036)	(19,904,347)
Net Cash From Operating Activities		265,903,308	258,009,317
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of investment securities at amortized cost	9	1,870,877,759	3,183,000,000
Acquisitions of investment securities at amortized cost	9	(1,414,304,110)	(3,656,351,336)
Acquisitions of other intangible assets	13	(50,447,008)	(77,674,962)
Acquisitions of bank premises, furniture, fixtures and equipment	11	(32,012,477)	(31,304,208)
Net Cash from Investing Activities		374,114,164	(582,330,506)
CASH FLOWS FROM FINANCING ACTIVITY			
Repayment of lease liabilities	12	(8,044,341)	(5,938,645)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		631,973,131	(330,259,834)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	7	12,200,533	6,145,728
Due from Bangko Sentral ng Pilipinas (BSP)	7	154,616,917	77,217,302
Due from other banks	8	313,540,232	727,254,486
		480,357,682	810,617,516
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	7	22,941,395	12,200,533
Due from BSP	7	593,709,080	154,616,917
Due from other banks	8	495,680,338	313,540,232
		P 1,112,330,813	P 480,357,682

Supplemental Information on Non-cash Investing and Financing Activities:
In 2022 and 2021, the Bank recognized right-of-use assets amounting to P8.01 million and P7.65 million, respectively, with corresponding lease liabilities of the same amount each year in the statements of financial position (see Note 12).

See Notes to Financial Statements.

CEBUANA LHUILLIER RURAL BANK INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Incorporation and Operations

Cebuana Lhuillier Rural Bank Inc. (the Bank) was incorporated in the Philippines on February 19, 1998 to engage in the business of banking authorized under Republic Act (R.A.) 7353, otherwise known as "Rural Banks Act" of 1992 and RA 8791, otherwise known as the "General Banking Law" of 2000 and other allied laws. The Bank operates as a rural bank providing services such as deposit-taking, loans and trade finance, and micro-finance services under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP). The Bank was registered with the BSP on May 25, 1998 to operate as a rural bank.

The Bank's registered office address, which is also its principal place of business, is located at PJ Lhuillier Inc. Bldg., 160 Zapote Road, Zapote I, Bacoor City, Cavite.

As of December 31, 2021, the Bank has two branches located at Calatagan, Batangas, and Jupiter Street, Makati City. The Bank also has two extension offices at Imus, Cavite, and Nasugbu, Batangas. In 2022, the Bank opened two new branches located in Cebu City and Davao City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2022(including the comparative financial statements as at and for the year ended December 31, 2021) were authorized for issue by the Bank's Board of Directors (BOD) on April 14, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses in a single statement of comprehensive income.

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of Amended PFRS

(a) Effective in 2022 that are Relevant to the Bank

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

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

Discussed below are the relevant information about these pronouncements.

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

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

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

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

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

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

Among the amendments to PFRS is the Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements is the amendment on PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter,* which do not have a significant impact and is not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

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

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

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

2.3 Current versus Non-current classification

The Bank presents assets and liabilities in the statement of financial position based on liquidity, while current or non-current classification is presented in Note 4.8. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Bank classifies all other liabilities as non-current.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

2.4 Financial Instruments

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

(a) Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(i) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets can be classified as financial assets at amortized cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI) depending on the business model and cash flow characteristics. Currently, the only classification of financial assets that is applicable to the Bank is financial assets at amortized cost.

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

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

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

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Other Receivables, and Refundable deposits under Other Resources.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less, including Cash and Other Cash items and non-restricted balances of Due from BSP and Due from Other Banks. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

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

(ii) *Recognition of Interest Income*

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

When calculating the effective interest rate for financial instruments other than POCI financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset. The interest earned is recognized as part of Interest Income account in the statement of comprehensive income.

(iii) Impairment of Financial Assets

Allowances for ECL is recognized on a forward-looking basis associated with financial assets at amortized cost.

The Bank considers a broad range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank should measure loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk (SICR) subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as POCI financial assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.5.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* (PD) – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default* (LGD) – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default* (EAD) – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, and industry type of the borrowers or counterparties.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(iv) *Derecognition of Financial Assets*

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

Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

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

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

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

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

Derecognition of Financial Assets Other than Modification

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

(b) Financial Liabilities

Financial liabilities include deposit liabilities and other liabilities (excluding tax-related payables and post-employment benefit obligation) are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of comprehensive income.

Deposit liabilities are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

Other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

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

(c) Offsetting Financial Instruments

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less allowance for impairment losses, if any. All other bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

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

Bank premises	20 years
Transportation equipment	5 years
Furniture, fixtures and equipment	3 to 5 years

Leasehold improvements, presented as part of Bank premises, are amortized using the estimated useful lives or the remaining term of the lease whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no future charge for depreciation is made in respect of these assets.

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

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

2.6 Investment Properties

Investment properties pertain to parcels of land, and buildings and improvements acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost. Directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs are charged directly to profit or loss.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value, if any.

Investment properties except land are depreciated on a straight-line basis over a period of five years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the disposal of an investment property is recognized in profit or loss and is presented as Gain (loss) on disposal of non-financial assets under Other Operating Income (Other Operating Expenses) in the statement of comprehensive income in the year of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

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

2.7 Intangible Assets

Intangible assets include acquired computer software and branch licenses which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses, presented as Intangible Assets in the statement of financial position, are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of three to five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing when indications exist, as described in Note 2.13.

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

2.8 Other Resources

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

2.9 Equity

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

Surplus consist of:

(a) Other surplus reserves pertain to surplus restricted for a particular purpose as set aside by the Bank's BOD.

(b) General loan loss reserves pertain to the accumulated amount of appropriation made by the Bank arising from the excess of the 1.00% general loan loss provision for the outstanding loans as required by BSP Circular No. 1011, *Guidance on the Adoption of PFRS 9* over the computed allowance for ECL on 'Stage 1' loan accounts.

(c) Surplus free includes all current and prior period results of operations as reported in the statement of comprehensive income, reduced by the amount of any dividends declared.

Remeasurements on retirement benefit obligation represent the cumulative amount of remeasurements on the Bank's post-employment defined benefit plan as reported in the other comprehensive income or loss section of the statement of comprehensive income.

Deposit on future stock subscriptions refer to the amount of money or property received by the Bank with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. Deposit on future stock subscriptions cannot be considered as part of the capital stock of the Bank until shares of stock are actually issued in consideration thereof.

Based on the requirements of the SEC, deposit on future stock subscription will be classified as part of equity if all of the following criteria are met as at reporting date:

(a) The unissued authorized capital stock of the Bank is insufficient to cover the deposit;

(b) There is a BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);

(c) There is stockholders' approval of said proposed increase in authorized capital stock; and,

(d) The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as part of liability. The amount of deposit for future stock subscriptions will be reclassified to equity account when the Bank meets the foregoing elements.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Other Operating Income and Expense Recognition

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

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

The Bank's other operating income arises from rendering of services such as processing fees, and service charges, gain on sale of investment properties and other assets and other fees. These revenues are accounted for by the Bank in accordance with PFRS 15. On the other hand, the Bank's revenue from lending activities are measured in accordance with the requirements of PFRS 9 [see Note 2.4(a)].

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

For other income arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies, such as Service charges and fees.

Service charges and fees are generally recognized when the service has been provided. These include commissions and fees arising from loans, deposits and other banking transactions, such as online banking fees and debit card fees, and are taken up as income based on agreed terms and conditions. This is included in profit or loss as part of Other Operating Income.

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

(a) *Gain on Sale of Non-financial Assets* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account in the statement of comprehensive income.

(b) *Recovery on charged-off assets* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in profit or loss as part of Miscellaneous income under Other Operating Income account in the statement of comprehensive income.

Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred.

2.12 Leases – Bank as a Lessee

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

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

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

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

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from all other resources and other liabilities, respectively.

2.13 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixture and equipment, investment properties, right-of-use assets, other intangible assets and other non-financial assets are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

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

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

2.14 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, defined contribution plans, and other employee benefits which are recognized and measured below and in the succeeding page:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

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

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

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g., Social Security System). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

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

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Accrued Expenses and Other Liabilities under Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay short-term employee benefits as a result of the unused entitlement.

2.15 Income Taxes

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized [see Note 3.2(f)].

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

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

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

The Bank establishes liabilities for probable and estimable assessments by the Bureau of Internal Revenue (BIR) resulting from any known tax exposures. Estimates represent a reasonable provision for taxes ultimately expected to be paid and may need to be adjusted overtime as more information becomes available.

2.16 Related Party Transactions and Relationships

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

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

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

2.17 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

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

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

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

The Bank did not include the renewal period as part of the lease term for leases of offices as they are deemed unenforceable due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

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

(b) Application of ECL to Financial Assets at Amortized Cost

The Bank uses general impairment approach to calculate ECL for loans and other receivables, while for investment securities at amortized cost, external benchmarking approach was used. The allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a SICR since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

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

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) Distinction Between Investment Properties or Other Foreclosed Asset and Owner-occupied Properties

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

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Other foreclosed assets presented under Other Resources, if the Bank expects that the properties, which are other than land and building, will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties, which could be land and/or building, to earn rental or for capital appreciation.

(e) Determination of Branch Licenses Having Indefinite Useful Lives

The Bank's branch licenses, which are recognized under Intangible Assets – net, were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 23.

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

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of Allowance for ECL

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also considers the use of reasonable and supportable forward-looking information (FLI), which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages; and,
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements.

The computation of credit-impairment provision also involves expert judgement to be applied based upon counterparty information received from various sources including external market information.

Explanation of the inputs, assumptions and estimation used in measuring ECL, and the analysis of the allowance for ECL on various groups of financial instruments is further detailed in Note 4.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Notes 9 and 10.

(c) Fair Value Measurement for Financial Instruments

Fair value measurements for financial assets are generally based on listed or quoted market prices. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Intangible Assets, Investment Properties, Right-of-use Assets, and Other foreclosed assets

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

The carrying amounts of bank premises, furniture, fixtures and equipment, intangible assets, right-of-use assets, investment properties, and, other foreclosed assets are analyzed in Notes 11, 12, 13, 14 and 15, respectively. Based on management's assessment as at December 31, 2022 and 2021, there is no change in estimated useful lives of bank premises, furniture, fixtures and equipment, other intangible assets, investment properties, right-of-use assets, and other foreclosed assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determination of Fair Value of Investment Properties

Investment properties are measured using the cost model. The fair value disclosed in Note 6 to the financial statements as determined using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value. The Bank engages services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 6.

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

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2022 and 2021 will be fully utilized within the coming years. The carrying value of deferred tax assets as of December 31, 2022 and 2021are disclosed in Note 21.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As of December 31, 2022 and 2021, the Bank has not recognized any impairment losses on its bank premises, furniture, fixtures and equipment, other intangible assets, and right-of-use assets. Impairment losses recognized by the Bank on its investment properties, and other foreclosed assets, on the other hand, are discussed in Notes 14 and 15, respectively.

(h) *Valuation of Post-employment Defined Benefit Plan*

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

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

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Bank's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

4.1 Bank's Strategy in Using Financial Instruments

It is the Bank's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD, the Bank is exposed to liquidity risk and interest rate risk inherent in the Bank's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Bank accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Bank maintains liquidity at prudent levels to meet all claims that fall due, the Bank fully recognizes the consequent interest rate risk exposure.

4.2 Integrated Risk Management Framework

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the BOD for approval.

4.3 Risk Responsibilities

The Bank's over-all risk management strategy and oversight function is handled by the:

(i) Board of Directors

The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end in view of effectively managing all risks in its activities. The policies to be formulated include, but not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal control.

(ii) President

The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

(iii) Risk Management Committee

Risk Management Committee is the board level committee responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

(iv) Management Committee

Management Committee is responsible for the implementation of the strategies on risk control and makes adjustments to overall business strategy. It also ensures compliance with laws and regulations and creates systems to measure and monitor performance.

(v) Credit Committee

Credit Committee is responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Operations Head and the President passes through this committee for final approval. Credit proposals beyond its limits are escalated to the Risk Management Committee for endorsement to the BOD for final approval.

(vi) Compliance Unit

This unit is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Compliance Officer regularly reports to the BOD.

(vii) Internal Audit

Internal Audit (IA) provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IA audits risk management processes throughout the Bank. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of the BOD.

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

4.4 Market Risk

The Bank's exposure to market risk is the potential diminution of earnings arising from the movement of market interest rates as well as the potential loss of market value, primarily of its holdings of debt securities and derivatives, due to price fluctuation.

The market risk relevant to the Bank is interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates on due from BSP and other banks, and deposit liabilities that are subject to variable interest rates (see Notes 7, 8, and 16). The volatility in the interest rates of these financial instruments will result in an increase or decrease in the Bank's interest spread, and consequently will affect its financial performance.

The table below illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates of +/- 0.93% basis points (bps) in 2022 and +/- 0.16% basis points (bps) in 2021. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	2022		2021	
	+0.93% bps	**-0.93% bps**	+0.16% bps	-0.16% bps
Profit before tax	**P 795,992**	**(P 795,992)**	P 836,810	(P 836,810)
Equity	**636,794**	**(636,794)**	683,901	(683,901)

The Bank follows a prudent policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. As a result, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

As of December 31, 2022 and 2021, the Bank's loans and other receivables have fixed interest rates.

4.5 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default.

This is inherent in the Bank's lending and investing and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD approved policies and limits. Credit Committee, as guided by the RMC, performs an independent portfolio oversight of credit risks and reports regularly to the RMC and the BOD.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

(a) Credit Risk Measurement

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL as required by PFRS 9.

The initial recognition of credit risk by individual or group of related counterparties is done via its ICRRS. The ICRRS is tailored to consider various categories of counterparty. The rating system is further supplemented with external data such as credit rating agencies' scoring information on individual borrowers.

The ICRRS is established by the Bank in congruence with and with reference to the credit risk rating methodology used by an established rating agency in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between risk ratings). Past due, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated under Especially Mentioned, Substandard, Doubtful or Loss, and the loan loss provision of which are based on the loss given default.

Management considers additional information for each type of loan portfolio held by the Bank:

(i) Retail or Consumer Loans

Subsequent to initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. The ECL parameters were carried on collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(ii) Corporate and Commercial Loans

For corporate and commercial loans, the rating is determined at the borrower level. A relationship manager incorporates any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the relationship manager also updates information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This determines the internal credit rating and the PD.

(iii) Debt Securities at Amortized Cost and at FVOCI

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

In the process of applying the Bank's ICRRS in determining indications of impairment on individually significant items of financial assets at amortized cost and debt securities at FVOCI, the Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
Excellent	Borrowers have very strong debt service capacity and conservative balance sheet leverage.
Strong	Borrower normally has a comfortable degree of stability, substance and diversity.
Good	Borrowers have low probability of going into default and bear characteristics of some degree of stability and substance though susceptible to cyclical changes and higher degree of concentration of business risk either by product or by market.
Satisfactory	Borrowers where clear risk elements exist and the probability of default is somewhat greater.
Acceptable	Borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within acceptable period can be expected.
Watch list	Borrowers for which unfavorable industry or company specific risk factors represent a concern.

Classified accounts or accounts already in default as defined are further mapped into BSP classification of non-performing accounts as follows:

Risk Rating	Rating Description/Criteria
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

Risk Rating	Rating Description/Criteria
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless.

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology.

(b) Expected Credit Loss Measurement

The Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition, through assessments of the change in risks of default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and FLI, as appropriate. A '3-stage' impairment model has been adopted by the Bank based on changes in credit quality since initial recognition of the financial asset. The Bank considers the quantitative criteria based on the BSP Manual of Regulations for Banks (MORB) Section 143 (Appendix 15), as amended by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9*, in classifying the status of loan. As a general rule, especially mentioned and substandard-underperforming (e.g., substandard accounts that are unpaid or with missed payment of less than 90 days) shall be considered Stage 2 accounts, while substandard non-performing, doubtful and loss accounts shall be considered as Stage 3 accounts.

The computation of the ECL also considers the use of reasonable and supportable FLI, which is based on the BSP's requirement to look beyond the quantitative considerations (days past due or missed amortizations) in assessing borrower's capacity to pay.

In accordance with PFRS 9, the ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, EAD, and LGD, which are defined in Note 2.4(a) (iii).

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month and lifetime EADs are determined based on the expected payment profiles, which would vary by loan product/portfolio.

The incorporation of FLI in the assessment of SICR and calculation of ECL requires historical analysis and identification of key macroeconomic variables (MEVs) impacting credit risk associated with the Bank's borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The MEVs and their associated impact on the PD, EAD and LGD vary by financial instrument. The Bank formulates forecasts of MEVs (one base economic scenario, and two less likely scenarios – one upside and one downside) and are performed by the Bank's Loan Management Department under Credit Operations and Management Division (COMD), on a quarterly basis and provide the best estimate view of the economy over the next five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of EAD and LGD.

The base scenario is aligned with information used by the Bank for strategic planning and budgeting. The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which include gross domestic product and interest rates. The analysis of these scenarios take into account the range of possible outcomes that each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the scenario, multiplied by the associated scenario weight, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3, hence, whether a 12-month or lifetime ECL should be recorded.

Following this assessment, the Bank measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weights.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the nonlinearities and asymmetries within the Bank's different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL.

PFRS 9 also requires modeling ECL parameters, which should be carried out on a collective basis. The financial instruments should be grouped on the basis of shared credit risk characteristics, such as instrument type, credit risk rating, collateral type, repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties. The groupings are subject to the regular review by the Bank's COMD in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(c) *Credit Quality Analysis*

The table below and in the succeeding page sets out information about the credit quality of loans and other receivables, and investment in securities at amortized cost. As of December 31, 2022 and 2021, there are no POCI financial assets in the Bank's financial statements.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Performing:				
Current	P 1,326,713,159	P 486,858	P -	P 1,327,200,017
Past due	9,110,883	168,716,957	-	177,827,840
Non-performing:				
Past due	-	-	88,592,465	88,592,465
Items in litigation	-	-	1,182,641	1,182,641
Other receivables	146,036,873	-	-	146,036,873
	1,481,860,915	169,203,815	89,775,106	1,740,839,836
Expected credit loss allowance	(27,471,767)	(6,874,537)	(14,196,452)	(48,542,756)
Carrying amount	**P 1,454,389,148**	**P 162,329,278**	**P 75,578,654**	**P 1,692,297,080**
Investment securities at amortized cost				
Grade AA+ to BBB: Current	**P 3,202,656,825**	**P -**	**P -**	**P 3,202,656,825**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Performing:				
Current	P 777,568,513	P -	P -	P 777,568,513
Past due	-	69,406,559	-	69,406,559
Non-performing:				
Past due	-	-	45,273,993	45,273,993
Items in litigation	-	-	3,624,919	3,624,919
Other receivables	119,910,004	-	-	119,910,004
	897,478,517	69,406,559	48,898,912	1,015,783,988
Expected credit loss allowance	(18,430,922)	(6,692,983)	(17,789,085)	(42,912,990)
Carrying amount	P 879,047,595	P 62,713,576	P 31,109,827	P 972,870,998
Investment securities at amortized cost				
Grade BBB+: Current	P 3,648,618,749	P -	P -	P 3,648,618,749

The Bank's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(i) Due from BSP and Other Banks

The credit risk for Due from BSP and other banks is considered negligible, since the counterparties are reputable banks. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.50 million per depositor per banking institution, as provided for under R.A. No. 9576, *Amendment to Charter of PDIC*.

(ii) Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various geographical areas.

The carrying amount of loans and receivables as at December 31, 2022 and 2021, are presented under Note 10.

(iii) Investment Securities at Amortized Cost

The Bank's investment securities, which are composed of debt securities issued by the Republic of the Philippines and reputable companies, are not deemed significant given that counterparties are rated between AA+ to BBB based on S&P ratings. The Bank's investment securities are considered to be at Stage 1.

(d) Concentration of Credit Risk

Excessive concentration of lending poses undue risk on the Bank's asset quality. The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance for impairment) as at December 31, 2022 and 2021 are shown below.

	Cash and Other Cash Items	Due from BSP and Other Banks	Receivables from Customers	Investment Securities at Amortized Cost	Total
2022:					
Financial intermediaries	P 22,941,395	P 1,089,389,418	P 47,400,843	P 2,702,678	P 1,162,434,334
Real estate activities	-	-	570,159,746	67,511,122	637,670,868
Agriculture, forestry and fishing	-	-	11,266,078	-	11,266,078
Wholesale and retail trade	-	-	57,550,265	-	57,550,265
Construction	-	-	67,443,330	-	67,443,330
Transportation and storage and communication	-	-	2,852,131	10,771,258	13,623,389
Accommodation and food service activities	-	-	3,267,904	-	3,267,904
Human health and social work activities	-	-	266,322	-	266,322
Electricity, gas, steam and water	-	-	-	153,635,917	153,635,917
Government	-	-	-	2,868,869,539	2,868,869,539
Manufacturing	-	-	46,688	99,166,311	99,212,999
Other service activities	-	-	834,549,656	-	834,549,656
Carrying amount	**P 22,941,395**	**P 1,089,389,418**	**P 1,594,802,963**	**P 3,202,656,825**	**P 5,909,790,601**
2021:					
Financial intermediaries	P 12,200,533	P 468,157,149	P -	P 2,794,616	P 483,152,298
Real estate activities	-	-	370,828,395	62,154,323	432,982,718
Wholesale and retail trade	-				
Agriculture, forestry		-	68,202,370	-	68,202,370
and fishing	-	-	46,321,143	-	46,321,143
Human health and social		-	9,620,837	4,140,171	13,761,008
work activities	-				
Transportation and storage and		-	4,948,129	-	4,948,129
communication	-				
Electricity, gas, steam and water	-	-	3,462,901	-	3,462,901
Construction	-				
Accommodation and food		-	2,411,547	-	2,411,547
service activities	-	-	817,282	145,174,076	145,991,358
Government	-	-	327,067	3,325,883,072	3,326,210,139
Manufacturing	-	-	38,907	108,472,491	108,511,398
Other service activities	-	-	388,895,406	-	388,895,406
Carrying amount	P 12,200,533	P 468,157,149	P 895,873,984	P 3,648,618,749	P 5,024,850,415

(e) *Modifications of Financial Assets*

(i) *Financial Reliefs Provided by the Bank*

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

The outstanding balance of restructured loans amounted to P5.84 million and P10.04 million as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounted to P0.08 million and P0.47 million as of December 31, 2022 and 2021, respectively.

(ii) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset [see Note 2.4(a)(i)]. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms), so that the assets are expected to move from Stage 3 or Stage 2 (wherein lifetime ECL is recognized) to Stage 1 (12-month ECL).

The Bank further incorporate an "ever bad adjustment." This adjustment is incorporated in the monthly status of the accounts to make sure that an account that experiences a default within the next 12 months (performance window) will be tagged as default. This ensures that default experiences will be recognized even if the accounts improve before the end of the performance period.

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

(f) Credit Risk Exposures

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, except for certain secured loans and receivables from customers, as shown below.

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts:				
Corporate	P 261,151,801	P 148,424,541	P 112,594,814	P 148,424,541
Consumer	1,333,651,162	410,596,600	923,054,562	410,596,600
Sales contracts receivables	2,507,384	5,500,000	-	5,500,000
	P 1,597,310,347	**P 564,521,141**	**P1,035,649,376**	**P 564,521,141**
2021				
Loans and discounts:				
Corporate	P 140,979,277	P 80,165,643	P 60,813,634	P 80,165,643
Consumer	754,894,707	232,412,499	522,482,208	232,412,499
Sales contracts receivables	2,963,455	5,500,000	-	5,500,000
	P 898,837,439	P 318,078,142	P 583,295,842	P 318,078,142

An analysis of the maximum credit risk exposure relating to Stage 3 financial assets as of December 31, 2022 and 2021 is shown in the succeeding page.

		Gross Maximum Exposure		Fair Value of Collaterals		Net Exposure		Financial Effect of Collaterals
2022								
Loans and discounts:								
Corporate	P	6,392,945	P	6,316,187	P	76,758	P	6,316,187
Consumer		32,313,344		25,292,594		7,020,750		25,292,594
	P	**38,706,289**	**P**	**31,608,781**	**P**	**7,097,508**	**P**	**31,608,781**
2021								
Loans and discounts:								
Corporate	P	7,175,034	P	4,079,970	P	3,095,064	P	4,079,970
Consumer		32,266,439		11,165,496		25,100,943		11,165,496
	P	39,441,473	P	15,245,466	P	228,196,007	P	15,245,466

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized as of December 31:

	Notes		2022		2021
Cash and cash equivalents	7, 8	**P**	**1,112,330,813**	P	430,357,682
Investment securities at amortized cost	9		**3,202,656,825**		3,648,618,749
		P	**4,314,987,638**	P	4,078,976,431

Cash and cash equivalents includes cash and other cash items and loans and advances to banks (i.e., Due from BSP and Due from Other Banks). Debt securities includes government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

(g) Allowance for Expected Credit Losses

The following table show the reconciliation of the loss allowance for ECL on loans and receivables at the beginning and end of 2022 and 2021.

	2022							
		Stage 1		**Stage 2**		**Stage 3**		**Total**
Receivables from customers								
Balance at January 1	P	18,430,922	P	6,692,983	P	17,789,085	P	42,912,990
Transfer to:								
Stage 2		4,846,560	(	4,846,560)		-		-
Stage 3		-		3,278,990	(	3,278,990)		-
Net remeasurement of loss allowance	(	4,486,782)	(	2,505,504)		5,265,694	(	1,726,592)
New financial assets originated		12,837,052		6,337,803		4,833,546		24,008,401
Derecognition of financial assets	(	4,155,985)	(	2,083,175)	(	10,412,883)	(	16,652,043)
Balance at December 31	**P**	**27,471,767**	**P**	**6,874,537**	**P**	**14,196,452**	**P**	**48,542,756**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Balance at January 1	P 4,366,732	P 2,245,171	P 21,574,995	P 28,186,898
Transfer to:				
Stage 2	(3,174,692)	3,174,692	-	-
Stage 3	-	(1,537,969)	1,537,969	-
Net remeasurement of loss allowance	8,254,460	466,094	3,177,370	11,897,924
New financial assets originated	9,252,282	2,494,018	-	11,746,300
Derecognition of financial assets	(267,860)	(149,023)	(8,501,249)	(8,918,132)
Balance at December 31	P 18,430,922	P 6,692,983	P 17,789,085	P 42,912,990

(b) *Significant Changes in Gross Carrying Amount Affecting Allowance for ECL*

The tables below and in the succeeding page provide information how the significant changes in the gross carrying amount of loans and receivables in 2022 and 2021 contributed to the changes in the allowance for ECL.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers				
Balance at January 1	P 777,568,513	P 69,406,559	P 48,898,912	P 895,873,984
Transfer to:				
Stage 2	42,619,812	(42,619,812)	-	-
Stage 3	-	3,474,853	(3,474,853)	-
New financial assets originated	896,104,863	165,728,962	54,763,930	1,116,597,755
Derecognition of financial assets	(380,469,146)	(26,786,747)	(10,412,883)	(417,668,776)
Balance at December 31	**P 1,335,824,042**	**P 169,203,815**	**P 89,775,106**	**P 1,594,802,963**
Other receivables				
Balance at January 1	P 119,910,004	P -	P -	P 119,910,004
New financial assets originated	144,444,607	-	-	144,444,607
Derecognition of financial assets	(118,317,738)	-	-	(118,317,738)
Balance at December 31	**P 146,036,873**	**P -**	**P -**	**P 146,036,873**
Investment securities at amortized cost				
Balance at January 1	P 3,648,618,749	P -	P -	P 3,648,618,749
New financial assets originated	1,414,304,110	-	-	1,414,304,110
Derecognition of financial assets	(1,870,877,759)	-	-	(1,870,877,759)
Amortization of premiums and discounts	10,611,725	-	-	10,611,725
Balance at December 31	**P 3,202,656,825**	**P -**	**P -**	**P 3,202,656,825**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Balance at January 1	P 435,846,964	P 35,457,447	P 44,647,009	P 515,951,420
Transfer to:				
Stage 2	(84,858,742)	84,858,742	-	-
Stage 3	-	(13,145,529)	13,145,529	-
New financial assets originated	504,239,170	39,432,170	-	543,671,340
Derecognition of financial assets	(77,658,879)	(77,196,271)	(8,893,626)	(163,748,776)
Balance at December 31	P 777,568,513	P 69,406,559	P 48,898,912	P 895,873,984
Other receivables				
Balance at January 1	P 71,016,626	P -	P -	P 71,016,626
New financial assets originated	110,192,864	-	-	110,192,864
Derecognition of financial assets	(61,299,486)	-	-	(61,299,486)
Balance at December 31	P 119,910,004	P -	P -	P 119,910,004

	2021			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at amortized cost				
Balance at January 1	P 3,162,457,664	P -	P -	P 3,162,457,664
New financial assets originated	3,656,351,336	-	-	3,656,351,336
Derecognition of financial assets	(3,183,000,000)	-	-	(3,183,000,000)
Amortization of premiums and discounts	12,809,749	-	-	12,809,749
Balance at December 31	P 3,648,618,749	P -	P -	P 3,648,618,749

(i) Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, chattel mortgage and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally reviewed and updated annually.

Collateral is not usually held against investment securities and no such collateral was held as of December 31, 2022 and 2021.

In 2022 and 2021, the Bank has no significant changes as to its policies in obtaining collateral, and there has been no significant change in the overall quality of the collaterals held by the Bank since the prior period.

An estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31, 2022 and 2021 is shown below.

	2022	2021
Secured:		
Real estate mortgage	**P 623,146,874**	P 438,451,214
Chattel mortgage	**15,164,607**	3,882,615
Deposit hold-out	**7,947,794**	340,421
	646,259,275	442,674,250
Unsecured	**948,543,688**	453,199,734
	P 1,594,802,963	P 895,873,984

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

(j) Sensitivity Analysis on ECL Measurement

Set out below are the changes to the Bank's ECL as of December 31, 2022 and 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

	Impact on ECL Allowance		
	Change in MEV assumption +/ - 1%	**Increase in assumption**	**Decrease in assumption**
2022:			
Business loans	- Construction material retail price index - Normal effective exchange rate	P 1,012,773	(P 469,895)
Salary loans	- Consumer price index - Nominal effective exchange rate	11,742,213	(10,772,344)
Other retail loans	- Construction material retail price index - Gross capital formation	401,943	(377,508)
2021:			
Business loans	- Construction material retail price index - Normal effective exchange rate	P 2,487,118	(P 1,153,945)
Salary loans	- Consumer price index - Nominal effective exchange rate	8,210,668	(7,532,493)
Other retail loans	- Construction material retail price index - Gross capital formation	384,462	(361,089)

(a) Write-off

Similar with prior years, the Bank writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

In 2022 and 2021, Bank has written-off certain loans amounting to P10.41 million and P8.89 million, respectively (see Note 10).

4.6 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The tables below present an analysis of the maturity groupings of financial assets and financial liabilities as of December 31, 2022 and 2021 in accordance with BSP account classifications.

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
December 31, 2022:					
Resources:					
Cash and other cash items	P 22,941,395	P -	P -	P -	P 22,941,395
Due from BSP	593,709,080	-	-	-	593,709,080
Due from other banks	395,680,338	100,000,000	-	-	495,680,338
Investment securities at amortized cost	-	435,127,825	726,529,000	2,041,000,000	3,202,656,825
Loans and other receivables - net	194,037,202	41,313,520	164,535,504	1,292,410,854	1,692,297,080
Other resources	5,119,934	-	-	-	5,119,934
	1,211,487,949	576,441,345	891,064,504	3,333,410,854	6,012,404,652
Liabilities:					
Deposit liabilities	5,608,089,548	-	-	79,340,697	5,687,430,245
Lease liabilities	379,210	763,830	3,258,573	5,568,065	9,969,678
Accrued expenses and other liabilities	245,668,707	-	-	-	245,668,707
	5,854,137,465	763,830	3,258,573	84,908,762	5,943,068,630
Net periodic surplus (gap)	(4,642,649,516)	575,677,515	887,805,931	3,248,502,092	69,336,022
Cumulative total surplus (gap)	**(P 4,642,649,516)**	**(P 4,066,972,001)**	**(P 3,179,166,070)**	**P 69,336,022**	**P -**
December 31, 2021:					
Resources:					
Cash and other cash items	P 12,200,533	P -	P -	P -	P 12,200,533
Due from BSP	154,616,917	-	-	-	154,616,917
Due from other banks	213,540,232	50,000,000	50,000,000	-	313,540,232
Investment securities at amortized cost	442,809,749	480,940,000	983,530,000	1,741,339,000	3,648,618,749
Loans and other receivables - net	132,547,832	15,536,041	95,015,329	729,771,796	972,870,998
Other resources	3,919,038	-	-	-	3,919,038
	959,634,301	546,476,041	1,128,545,329	2,471,110,796	5,105,766,467
Liabilities:					
Deposit liabilities	4,888,333,782	-	-	88,540,697	4,976,874,479
Lease liabilities	488,535	1,474,929	4,002,697	3,467,581	9,433,742
Accrued expenses and other liabilities	72,632,684	-	-	-	72,632,684
	4,961,455,001	1,474,929	4,002,697	92,008,278	5,058,940,905
Net periodic surplus (gap)	(4,001,820,700)	545,001,112	1,124,542,632	2,379,102,518	46,825,562
Cumulative total surplus (gap)	(P 4,001,820,700)	(P 3,456,819,588)	(P 2,332,276,956)	P 46,825,562	P -

4.7 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or R.A. No. 9160 was passed in September 2001and was amended by R.A. No. 9194, R.A. No. 10167, and R.A. No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in R.A. No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit Committee approval is necessary. The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis. The Compliance Officer regularly reports to the Audit Committee and to the BOD the results of their monitoring of AMLA compliance.

4.8 Maturity Analysis of Resources and Liabilities

The table below shows an analysis of resources and liabilities analyzed according to when they are expected to be recovered or settled:

	2022			2021		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Resources:						
Cash and other cash items	**P 22,941,395**	**P -**	**P 22,941,395**	P 12,200,533	P -	P 12,200,533
Due from BSP	**593,709,080**	**-**	**593,709,080**	154,616,917	-	154,616,917
Due from other banks	**495,680,338**	**-**	**495,680,338**	313,540,232	-	313,540,232
Investment securities at amortized cost	**1,161,656,825**	**2,041,000,000**	**3,202,656,825**	1,907,279,749	1,741,339,000	3,648,618,749
Loans and other receivables - net	**399,886,226**	**1,292,410,854**	**1,692,297,080**	243,099,202	729,771,796	972,870,998
Bank premises, furniture, fixtures and equipment – net	**-**	**80,520,785**	**80,520,784**	-	68,335,792	68,335,792
Investment properties – net	**-**	**14,628,376**	**14,628,376**	-	1,930,411	1,930,411
Right-of-use assets – net	**4,367,436**	**4,896,543**	**9,263,980**	-	8,784,258	8,784,258
Intangible assets – net	**-**	**128,696,855**	**128,696,855**	-	111,969,289	111,969,289
Deferred tax assets – net	**-**	**16,992,843**	**16,992,843**	-	15,442,426	15,442,426
Other resources – net	**93,286,938**	**48,366**	**93,315,110**	112,380,036	866,023	113,246,059
Total Resources	**P 2,771,528,238**	**P 3,579,194,622**	**P 6,350,702,666**	P 2,743,116,669	P 2,678,438,995	P 5,421,555,664
Liabilities:						
Deposit liabilities	**P 5,608,089,547**	**P 79,340,697**	**P 5,687,430,244**	P 4,888,333,782	P 88,540,697	P 4,976,874,479
Accrued expenses and other liabilities	**249,888,826**	**-**	**249,888,826**	88,411,706	-	88,411,706
Lease liabilities	**4,401,614**	**5,568,064**	**9,969,678**	5,966,161	3,467,581	9,433,742
Retirement benefit obligation	**-**	**12,581,384**	**12,581,384**	-	5,530,145	5,530,145
Total Liabilities	**P 5,862,379,987**	**P 97,490,145**	**P 5,959,870,132**	P 4,982,711,649	P 97,538,423	P 5,080,250,072

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

	2022		2021	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets				
At amortized cost:				
Cash and other cash items	**P 22,941,395**	**P 22,941,395**	P 12,200,533	P 12,200,533
Due from BSP	**593,709,080**	**593,709,080**	154,616,917	154,616,917
Due from other banks	**495,680,338**	**495,680,338**	313,540,232	313,540,232
Investment securities	**3,202,656,825**	**3,205,150,589**	3,648,618,749	3,651,459,763
Loans and other receivables - net	**1,692,297,080**	**1,883,162,891**	972,870,998	1,082,596,302
Other resources	**5,119,934**	**5,119,934**	3,919,038	3,919,038
	P 6,012,404,652	**P6,205,764,227**	P 5,105,766,467	P 5,218,332,785
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 5,687,430,244**	**P 5,709,067,072**	P 4,976,874,479	P 4,995,808,123
Lease liabilities	**9,969,678**	**9,969,678**	9,433,742	9,433,742
Accrued expenses and other liabilities	**249,888,826**	**243,389,854**	72,632,684	72,632,684
	P 5,947,288,748	**P 5,962,426,604**	P 5,058,940,905	P 5,077,874,549

See Note 2.4 for the description of the accounting policies for each category of financial instruments. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statement of financial position as at December 31, 2022 and 2021 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statement of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statement of financial position.

	December 31, 2022			December 31, 2021		
	Related amounts not set off in the statement of financial position			Related amounts not set off in the statement of financial position		
	Financial instruments	**Collateral received**	**Net amount**	Financial instruments	Collateral received	Net amount
Financial assets – Loans and other receivables	**P1,692,297,080**	**(P 4,633,991)**	**P 1,687,663,089**	P 972,870,998	(P 340,421)	P 972,530,577
Financial liabilities – Deposit liabilities	**P5,687,430,244**	**(P 4,633,991)**	**P 5,682,796,253**	P 4,976,874,479	(P 340,421)	P 4,976,534,058

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

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

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

6.2 Financial Instruments Measured at Fair Value

The Bank has no financial assets and financial liabilities measured at fair value as of December 31, 2022 and 2021. However, the Bank has financial instruments measured at amortized cost for which fair value is required to be disclosed. Management considers that the carrying amounts of those short-term financial instruments approximate or equal to their fair values.

6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Financial assets:				
Cash and other cash items	P 22,941,395	P -	P -	P 22,941,395
Due from BSP	593,709,080	-	-	593,709,080
Due from other banks	495,680,338	-	-	495,680,338
Investment securities at amortized cost	-	3,205,150,589	-	3,205,150,589
Loans and other receivables – net	-	-	1,883,162,891	1,883,162,891
Other resources	-	-	5,119,934	5,119,934
	P 1,112,330,813	**P3,205,150,589**	**P 1,888,282,825**	**P6,205,764,227**
Financial liabilities:				
Deposit liabilities	P -	P -	P 5,709,067,072	P 5,709,067,072
Lease liabilities	-	-	9,969,678	9,969,678
Other liabilities	-	-	243,389,854	243,389,854
	P -	**P -**	**P5,962,426,604**	**P5,962,426,604**
December 31, 2021				
Financial assets:				
Cash and other cash items	P 12,200,533	P -	P -	P 12,200,533
Due from BSP	154,616,917	-	-	154,616,917
Due from other banks	313,540,232	-	-	313,540,232
Investment securities at amortized cost	-	3,651,459,763	-	3,651,459,763
Loans and other receivables – net	-	-	1,082,596,302	1,082,596,302
Other resources	-	-	3,919,038	3,919,038
	P 480,357,682	P3,651,459,763	P1,086,515,340	P 5,218,332,785
Financial liabilities:				
Deposit liabilities	P -	P -	P4,995,808,123	P 4,995,808,123
Lease liabilities	-	-	9,433,742	9,433,742
Other liabilities	-	-	72,632,684	72,632,684
	P -	P -	P5,077,874,549	P 5,077,874,549

For financial assets and financial liabilities, other than investment securities at amortized cost, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. Investment securities at amortized cost consist of government securities issued by the Philippine government with fair value determined based on prices published in BVAL, which represent the bid prices at the end of the reporting period.

6.4 Fair Value Measurement for Non-financial Assets for which Fair Value is Disclosed

The table below shows the Levels within the hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2022 and 2021.

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Investment properties: Land	**P -**	**P -**	**P 18,492,600**	**P 18,492,600**
December 31, 2021				
Investment properties: Land	P -	P -	P 2,347,500	P 2,347,500

The fair value of the Bank's land and building, classified under Investment Properties account are determined on the basis of the appraisals performed by internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 14). To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age and condition of the land and building and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use.

Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The fair values above, as determined by the appraisers, were used by the Bank in determining the fair value of investment properties.

The fair value of these non-financial assets was determined based on the following approaches:

(i) Fair Value Measurement of Land

The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(ii) Fair Value Measurement of Building

The Level 3 fair value of the building on the other hand was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence.

The more significant inputs used in the valuation include direct and indirect costs of construction such as, but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank for its non-financial assets for the years ended December 31, 2022 and 2021. Also, there were no transfers into or out of Level 3 fair value hierarchy in both 2022 and 2021.

7. CASH AND OTHER CASH ITEMS AND DUE FROM BANGKO SENTRAL NG PILIPINAS

This account is composed of the following:

	2022	2021
Cash and other cash items	**P 22,941,395**	P 12,200,533
Due from BSP	**593,709,080**	154,616,917
	P 616,650,475	P 166,817,450

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. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the balance of the deposit account maintained with the BSP to meet reserve requirements, to serve as clearing account for interbank claims and to comply with existing trust regulations. No interest income was recognized in 2022 and 2021 as the Due from BSP no longer bears interest.

8. DUE FROM OTHER BANKS

The balance of Due from Other Banks consists of the following:

	2022	2021
Time	**P 109,441,761**	P 107,551,325
Demand	**344,774,901**	166,361,865
Savings	**41,463,676**	39,627,042
	P 495,680,338	P 313,540,232

Due from other banks includes Philippine peso denominated regular and time deposits with local banks. Annual interest rates on these deposits range from 1.63% to 5.00% in 2022 and from 1.50% to 1.63% in 2021. Total interest income earned, which amounts to P1.67 million and P4.58 million in 2022 and 2021, respectively, are presented as Interest Income on Due from Other Banks in the statements of comprehensive income.

9. INVESTMENT SECURITIES AT AMORTIZED COST

As of December 31, the account consists of:

	2022	2021
Government debt securities	**P 2,868,869,539**	P 3,325,883,072
Corporate debt securities	**333,787,286**	322,735,677
	P 3,202,656,825	P 3,648,618,749

Investments in government debt securities earn coupon interest that ranges from 2.38% to 6.25% in 2022 and from 1.60% to 4.75%in 2021, while investment in corporate debt securities earn coupon interest that ranges from 2.84% to 7.82% in 2022 and 2021.

Effective interest rates on these investments ranges from 1.21% to 4.15% in 2022 and from 1.49% to 3.66%in 2021. The Bank's interest income from these investments amounted to P89.18 million and P68.30 million in 2022 and 2021, respectively, and is shown as Interest Income on Investment Securities at Amortized Cost in the statements of comprehensive income.

Accrued interest receivable as of December 31, 2022 and 2021 amounted to P19.18 million and P26.02 million, respectively, and is recorded as part of Accrued interest receivable under Loans and Other Receivables account in the statements of financial position (see Note 10).

Changes in the Bank's investment securities at amortized cost in 2022 and 2021 are summarized below.

	2022	2021
Balance at beginning of year	**P 3,648,618,749**	P 3,162,457,664
Additions	**1,414,304,110**	3,656,351,336
Maturities	**(1,870,877,759)**	(3,183,000,000)
Amortization of premiums (discounts)	**10,611,725**	12,809,749
Balance at end of year	**P 3,202,656,825**	P 3,648,618,749

In 2022 and 2021, the Bank has not recognized any impairment loss on its investment securities at amortized cost as management believes in the probability of its recovery.

Fair values of investment securities at amortized cost are disclosed in Note 6.3.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	2022	2021
Receivables from customers –			
Loans and discounts		**P 1,594,802,963**	P 895,873,984
Other receivables:			
Receivable from cash agents	22.2	**74,429,244**	62,238,171
Accrued interest receivable	9	**64,565,758**	42,216,648
Accrued fees receivable		**259,627**	10,118,796
Sales contract receivable (SCR)		**2,507,384**	2,963,455
Accounts receivable		**4,274,860**	2,372,934
		146,036,873	119,910,004
		1,740,839,836	1,015,783,988
Allowance for impairment		**(48,542,756)**	(42,912,990)
		P 1,692,297,080	P 972,870,998

Interest rates on receivables from customers range from 5.50% to 68.81% in 2022 and from 0.18% to 68.81% in 2021. Interest rates on SCR is 12.00% both in 2022 and 2021. All other receivables are noninterest-bearing, unsecured and are generally payable on demand.

Total interest income earned from loans and other receivables amounted to P151.44 million and P99.36 million in 2022 and 2021, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of comprehensive income.

All of the Bank's loans and other receivables have been assessed for impairment based on the ECL methodology adopted by the Bank. Certain loans and receivables were found to be impaired and provisions have been recorded accordingly. A reconciliation of allowance for impairment at the beginning and end of 2022 and 2021 is shown below.

		2022		2021
Balance at beginning of year	**P**	**42,912,990**	P	28,186,898
Impairment losses		**16,042,650**		23,619,768
Write-offs	**(**	**10,412,884)**	(	8,893,676)
Balance at end of year	**P**	**48,542,756**	P	42,912,990

Impairment losses on loans and other receivable are presented as part of Impairment Losses in the statements of comprehensive income.

In 2022 and 2021, Bank has written-off certain loans amounting to P10.41 million and P8.89 million, respectively.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 are shown below.

		Furniture, Fixtures and Equipment		**Transportation Equipment**		**Bank Premises**		**Total**
December 31, 2022								
Cost	P	108,488,587	P	4,213,755	P	21,577,751	P	134,280,093
Accumulated depreciation and amortization	(	44,032,026)	(	1,484,147)	(	8,243,136)	(	53,759,309)
Net carrying amount	**P**	**64,456,561**	**P**	**2,729,608**	**P**	**13,334,615**	**P**	**80,520,784**
December 31, 2021								
Cost	P	86,850,609	P	2,153,355	P	13,263,652	P	102,267,616
Accumulated depreciation and amortization	(	27,324,336)	(	1,060,591)	(	5,546,897)	(	33,931,824)
Net carrying amount	P	59,526,273	P	1,092,764	P	7,716,755	P	68,335,792
January 1, 2021								
Cost	P	61,277,695	P	1,653,355	P	8,032,358	P	70,963,408
Accumulated depreciation and amortization	(	13,216,919)	(	826,614)	(	3,925,773)	(	17,969,306)
Net carrying amount	P	48,060,776	P	826,741	P	4,106,585	P	52,994,102

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

	Furniture, Fixtures and Equipment	Transportation Equipment	Bank Premises	Total
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 59,526,273	P 1,092,764	P 7,716,755	P 68,335,792
Additions	21,637,978	2,060,400	8,314,099	32,012,477
Depreciation and amortization charges during the year	(16,707,690)	(423,556)	(2,696,239)	(19,827,485)
Balance at December 31, 2022, net of accumulated depreciation and amortization	**P 64,456,561**	**P 2,729,608**	**P 13,334,615**	**P 80,520,784**
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 48,060,776	P 826,741	P 4,106,585	P 52,994,102
Additions	25,572,914	500,000	5,231,294	31,304,208
Depreciation and amortization charges during the year	(14,107,417)	(233,977)	(1,621,124)	(15,962,518)
Balance at December 31, 2021, net of accumulated depreciation and amortization	P 59,526,273	P 1,092,764	P 7,716,755	P 68,335,792

Depreciation and amortization on bank premises, furniture, fixtures and equipment are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 19.2).

The gross carrying amount of fully depreciated property and equipment that are still in use as of December 31, 2022 and 2021 amounted to P8.60 million and P8.56 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment does not exceed 50% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this requirement.

12. LEASES

The Bank has leases on equipment and office space for its branches. Except for short-term leases, each lease is reflected on the statements of financial position as a right-of-use assets and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Bank's leasing activities by type ofright-of-use assets recognized in the statements of financial position.

	2022		2021	
	Office Spaces	**Equipment**	Office Spaces	Equipment
Number of right-of-use assets leased	**9**	**3**	5	3
Range of remaining lease term	**1 - 5 years**	**1 year**	2 - 3 years	2 years
Average remaining lease term	**3 years**	**1 year**	2 years	2 years
Number of leases with option to purchase	**-**	**3**	-	3

These leased assets do not have any enforceable extension options, and termination options.

12.1 Right-of-use Assets

The gross carrying amounts and accumulated amortization of right-of-use assets at the beginning and end of 2022 and 2021 are shown below:

	Branches	**ATM Machines**	**Total**
December 31, 2022			
Cost			
Balance at beginning of year	P 14,722,726	P 2,056,381	P 16,779,107
Additions	8,010,089	-	8,010,089
Balance at end of year	22,732,815	2,056,381	24,789,196
Accumulated amortization			
Balance at beginning of year	7,766,362	228,487	7,994,849
Depreciation	7,530,367	-	7,530,367
Balance at end of year	15,296,729	228,487	15,525,216
Carrying amount at December 31, 2021	**P 7,436,086**	**P 1,827,894**	**P 9,263,980**
December 31, 2021			
Cost			
Balance at beginning of year	P 7,068,781	P 2,056,381	P 9,125,162
Additions	7,653,945	-	7,653,945
Balance at end of year	14,722,726	2,056,381	16,779,107
Accumulated amortization			
Balance at beginning of year	1,924,973	228,486	2,153,460
Depreciation	5,841,389	-	5,841,389
Balance at end of year	7,766,362	228,486	7,994,849
Carrying amount at December 31, 2021	P 6,956,364	P 1,827,894	P 8,784,258

Amortization on right-of-use assets are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 19.2).

12.2 Lease Liabilities

The movements in the lease liabilities recognized in the statements of financial position as at December 31, 2022 and 2021are as follows:

		2022		2021
Balance at beginning of year	**P**	**9,433,742**	P	7,134,695
Cash flows from financing activities –				
Repayments of lease liabilities including interest	**(**	**8,044,341)**	(	5,938,645)
Non-cash financing activities:				
Additional lease liabilities		**8,010,089**		7,653,944
Interest amortization on lease liabilities		**570,188**		583,748
Balance at end of year	**P**	**9,969,678**	P	9,433,742

As at December 31, 2022 and 2021, the Bank has no lease commitments which had not commenced.

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities at December 31, 2022 and 2021 are as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
December 31, 2022						
Lease payments	P 4,836,619	P 4,516,906	P 679,452	P 512,866	P 129,761	P 10,675,604
Interest expense	(435,005)	(196,058)	(52,223)	(21,486)	(1,155)	(705,927)
Net present value	**P 4,401,614**	**P 4,320,848**	**P 627,229**	**P 491,380**	**P 128,606**	**P 9,969,677**
December 31, 2021						
Lease payments	P 6,334,290	P 2,040,575	P 1,667,248	P -	P -	P 8,374,865
Interest expense	(368,129)	(178,538)	(61,704)	-	-	(608,371)
Net present value	P 5,966,161	P 1,862,037	P 1,605,544	P -	P -	P 7,766,494

12.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating short-term leases amounted to P4.01 million and P1.52 million in 2022 and 2021, respectively, and is presented as Rentals under Other Operating Expenses in the statements of comprehensive income (see Note 19.2).

12.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P14.35 million and P7.46 million in 2022 and 2021, respectively. Interest expense in relation to lease liabilities amounted to P0.57 million and P0.58 million, respectively, and is presented as part of Interest Expense in the statements of comprehensive income.

13. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2022 and 2021 are shown below.

	2022	2021
Cost	P 191,284,068	P 140,837,060
Accumulated amortization	(62,587,213)	(28,867,771)
	P 128,696,855	P 111,969,289

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

	Note	2022	2021
Balance at January 1, net of accumulated amortization		P 111,969,289	P 52,138,150
Additions		50,447,008	77,674,962
Amortization during the year	19.2	(33,719,442)	(17,843,823)
Balance at December 31, net of accumulated amortization		P 128,696,855	P 111,969,289

The amount of amortization expense is presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 19.2).

14. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and those that were acquired through foreclosures. The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2022 and 2021 are shown below.

	Land	Building and Improvements	Total
December 31, 2022			
Cost	P 14,628,376	P -	P 14,628,376
Accumulated depreciation and impairment	-	-	-
Net carrying amount	P 14,628,376	P -	P 14,628,376
December 31, 2021			
Cost	P 1,930,411	P -	P 1,930,411
Accumulated depreciation and impairment	-	-	-
Net carrying amount	P 1,930,411	P -	P 1,930,411

	Land	Building and Improvements	Total
January 1, 2021			
Cost	P 2,587,733	P 341,817	P 2,929,550
Accumulated depreciation and impairment	(327,322)	(216,412)	(543,734)
Net carrying amount	P 2,260,411	P 125,405	P 2,385,816

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

	Land	**Building and Improvements**	**Total**
Balance at January 1, 2022, net of accumulated depreciation and impairment	P 1,930,411	P -	P 1,930,411
Additions	12,697,965	-	12,697,965
Balance at December 31, 2022, net of accumulated depreciation and impairment	**P 14,628,376**	**P -**	**P 14,628,376**
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 2,260,411	P 125,405	P 2,385,816
Disposals - net	(330,000)	(125,405)	(455,405)
Balance at December 31, 2021, net of accumulated depreciation and impairment	P 1,930,411	P -	P 1,930,411

Depreciation on investment properties are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 19.2).

The recoverable amounts of the Bank's investment properties used in determining the impairment losses to be recognized as of December 31, 2022 and 2021 were based on the appraised values of such properties. The information on the fair value measurements and disclosures related to investment properties are presented in Notes 3.2(e) and 6.4.

In 2022, loss on disposal of investment properties amounted to P0.62 million, while in 2021, gain on disposal of investment properties amounted to P1.14 million, and are presented under Other Operating Expenses and Other Operating Income, respectively, in the statements of comprehensive income (see Notes 19.2 and 19.1).

In 2022 and 2021, the Bank did not recognize allowance for impairment of investment properties since no additional impairment is required.

15. OTHER RESOURCES

This account consists of the following as of December 31:

		2022		2021
Stationery and supplies	**P**	**71,433,642**	P	96,840,910
Tax credits		**8,958,771**		4,047,924
Prepaid expenses		**7,717,612**		7,554,690
Refundable deposit		**5,119,934**		3,919,038
Other foreclosed assets - net		**48,367**		866,023
Others		**36,784**		17,474
	P	**93,315,110**	P	113,246,059

Prepaid expense consists of advance payment for rent, insurance, and utilities.

Other foreclosed assets include personal and movable properties acquired through foreclosures. The gross carrying amounts, accumulated amortization and allowance for impairment of other foreclosed assets at the beginning and end of 2022 and 2021 are shown below.

		2022		2021
Cost	**P**	**960,254**	P	1,654,239
Accumulated amortization and impairment	**(**	**911,888)**	(	788,216)
	P	**48,366**	P	866,023

A reconciliation of the carrying amounts of other foreclosed assets at beginning and end of 2022 and 2021 is shown below.

		2022		2021
Balance at January 1, net of accumulated amortization and impairment	**P**	**866,023**	P	189,264
Addition (Disposal)	**(**	**693,985)**		811,389
Amortization during the year	**(**	**123,672)**	(	175,966)
Recovery of impairment		**-**		41,336
	P	**48,366**	P	866,023

In 2021, the Bank recognized recovery on impairment of other foreclosed assets amounting to P0.04 million and is presented under Other Operating Income in the statements of comprehensive income (see Note 19.1). There was no similar transaction in 2022.

In 2022, the Bank sold other foreclosed asset at net carrying amount. There was no similar transaction in 2021.

Depreciation on other foreclosed assets are presented as part of Depreciation and amortization under Other Operating Expenses in the statement of comprehensive income (see Note 19.2).

16. DEPOSIT LIABILITIES

The breakdown of deposit liabilities per classification follows:

	2022	2021
Savings	**P 5,603,648,864**	P 4,884,218,670
Time	**79,340,697**	88,540,697
Demand and Negotiable Order of Withdrawal (NOW) accounts	**4,440,683**	4,115,112
	P 5,687,430,244	P 4,976,874,479

Deposit liabilities are in the form of savings, time, and demand and NOW deposits. Savings deposits have annual interest rates ranging from 0.20% to 4.50% per annum in both 2022 and 2021. Time deposits have annual interest rates ranging from 0.75% to 4.50% in both 2022 and 2021. Demand deposits, on the other hand, do not bear interest. Interest expense incurred on deposit liabilities amounted to P21.50 million and P24.81 million in 2022 and 2021, respectively, and are presented as Interest Expense on Deposit Liabilities in the statements of comprehensive income. Interest payable which amounts to P0.27 million and P0.17 million as of December 31, 2022 and 2021, respectively, is presented as Accrued interest payable under Other Liabilities in the statements of financial position (see Note 17).

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 2.00% for demand and savings in 2022 and 2021. The Bank is in compliance with these BSP regulations as of the end of each reporting period.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

	Note	**2022**	2021
Payable to clearing house		**P 116,928,639**	P 293,462
Accounts payable		**76,071,718**	36,566,539
Accrued expenses		**44,321,596**	29,832,381
Due to government agencies		**6,519,166**	15,779,022
Payable to subscribers		**5,774,561**	5,774,561
Accrued interest payable	16	**273,146**	165,741
		P 249,888,826	P 88,411,706

The Bank's customers use ATM and instapay to transfer funds real-time. These transactions generate net payable to clearing house, which usually settled within 30 days from the statement date.

Accounts payable consist of amounts due to suppliers and contractors.

Payables to subscribers represent the unused loads credits of the subscribers of the Bank's online payment and remittance system.

18. EQUITY

18.1 Capital Management Objectives, Policies and Procedures

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is regularly accounted for and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded through a sound capital position.

(a) Unimpaired Capital

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than the amount equal to ten percent (10.00%) of its risk-weighted assets. The qualifying capital of the Bank (for purposes of determining the capital-to-risk assets ratio) is total capital funds excluding:

- Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations to directors, officers, stockholders, and related interest (DOSRI);
- Deferred tax assets;
- Goodwill, if any;
- Sinking fund for redemption of redeemable preferred shares; and,
- Other regulatory deductions.

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 Capital are defined as follows:

(a) Tier 1 Capital includes the following:
   a. paid-up common stock;
   b. surplus and surplus reserves; and,
   c. undivided profits (for domestic banks only).

Subject to deductions for:
   a. treasury shares (if any);
   b. unrealized losses on underwritten listed equity securities purchased;
   c. unbooked valuation reserves, and other capital adjustments based on the latest BSP report of examination;
   d. outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
   e. goodwill; and,
   f. deferred income tax

(b) Tier 2 Capital includes:
   a. appraisal increment reserve – bank premises if any, as authorized by the Monetary Board of the BSP; and,
   b. general loan loss provision, limited to a maximum of 1.00% of credit risk-weighted assets.

The Bank's regulatory capital position is presented as follows:

	2022	2021
Tier 1 Capital	**P 373,839,691**	P 325,873,125
Tier 2 Capital	**9,006,963**	9,006,963
Total regulatory qualifying capital	**P 382,846,654**	P 334,880,088
Total risk-weighted assets	**P 2,707,879,957**	P 1,458,064,692
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**14.14%**	22.97%
Total Tier 1 expressed as percentage of total risk-weighted assets	**13.81%**	22.35%

As of December 31, 2022 and 2021, the Bank's capital adequacy ratios (CAR) is 14.14% and 22.97% respectively, which are higher than the BSP minimum requirement of 10.00% on the ratio of capital accounts against the risk-weighted assets.

(b) Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degrees of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity. The process of allocation of capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank's BOD.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account profitability is also taken, and synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

(c) Minimum Capital Requirement

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" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). The Bank is compliant with the P30.00 million minimum capital requirement of the BSP as of December 31, 2021.

In September 2022, the BSP raised the minimum capital requirement for rural banks. Rural banks with six to 10 branches are required to have a minimum capital of P120 million, while those with more than 10 branches should have capital of at least P200 million. As of December 31, 2022, the Bank have a total of four branches and head office, and compliant with the P120 million minimum capital requirement.

(d) Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 16.00% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2021.

The Bank's MLR as of December 31, 2022 and 2021 are analyzed below.

	2022	2021
Eligible stock of liquid assets	**P 3,981,200,352**	P 3,739,480,136
Total qualifying liabilities	**3,321,198,734**	2,649,653,309
MLR	**119.87%**	141.13%

18.2 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2022	2021	**2022**	2021
Common shares – P100 par value				
Authorized – 10,000,000 shares (2022) and 1,000,000 shares (2021)				
Issued:				
Balance at beginning and end of year	**1,000,000**	1,000,000	**P100,000,000**	P100,000,000
Subscribed during the year	**2,250,000**	-	**225,000,00**	-
Subscriptions receivable:				
Receivable from subscription during the year			**(225,000,000)**	-
Deposit applied during the year			**100,000,000**	-
Balance at end of year			**(125,000,000)**	-
Total outstanding capital stock			**P200,000,000**	P 100,000,00

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

18.3 Deposit on Future Stock Subscription

On September 17, 2020, the Bank's BOD and stockholders approved to increase the Bank's authorized capital stock from P100.00 million to P1.00 billion, or an increase by P900.00 million divided into 9.00 million shares with par value of P100 per share. Consequently, the Bank received cash deposit from its stockholders amounting to P100.00 million in relation to the planned increase in authorized capital stock.

In 2021, the Bank filed its application for the increase in authorized capital stock with the SEC. Accordingly, the deposit on future stock subscription was reclassified under the equity section in the 2021 statement of financial position.

On January 3, 2022, SEC approved the Bank's application for the increase in authorized capital stock. Subsequently, the Bank reclassified the deposit on future stock subscription amounting to P100.00 million to capital stock (see Note 18.2).

18.4 Appropriation of General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. The accumulated amount of appropriation to General Loan Loss Reserves for general loan loss portfolio as of December 31, 2022 amounted to P4.77 million. No similar appropriation was made in 2021 since there is no deficiency between computed ECL and BSP provisions.

18.5 Other Surplus Reserves

On November 21, 2018, the BOD approved the reservation of surplus amounting to P40.00 million for the intended management information upgrade, IT development, and purchase of bank premises, furniture, fixture, and equipment.

The foregoing appropriation are expected to materialize in two to five years' time from the date of BOD approval. As of December 31, 2022 and 2021, management's assessment on these reserves for information upgrade, IT development and purchase of bank premises, furniture, fixtures and equipment shall be substantially utilized for continued branch expansion and IT development aligned with the Bank's projects and pipeline of digital products.

19. OTHER OPERATING INCOME AND EXPENSES

19.1 Other Operating Income

	Notes	**2022**	2021
Service charges and fees:			
Debit card fees		**P 145,201,752**	P 180,877,350
Online banking fees		**30,697,242**	27,698,051
Other service charges		**36,983,167**	8,199,405
Gain on sale of investment properties	14	**-**	1,138,224
Gain on recovery of impairment of non-financial assets	15	**-**	41,336
Miscellaneous		**2,145,634**	1,498,259
		P 215,027,795	P 219,452,625

19.2 Other Operating Expenses

	Notes	2022	2021
Salaries and other benefits	20.1	**P 102,339,313**	P 66,043,344
Cost of debit cards		**40,630,485**	60,867,600
Depreciation and amortization	11, 12, 13, 14, 15	**61,200,966**	39,823,695
Commissions	22.2	**28,981,408**	60,004,875
Fines and penalties		**18,229,880**	1,275,317
Taxes and licenses		**18,161,275**	18,818,903
Advertising and promotion		**17,291,607**	1,427,869
Utilities		**11,468,157**	6,266,791
Insurance		**10,906,886**	13,438,175
Membership dues		**10,337,571**	6,135,886
Management and professional fees		**5,636,736**	3,426,976
Security and other services		**5,416,096**	2,134,962
Rentals	12.3	**4,006,413**	1,524,371
Traveling		**1,682,460**	137,689
Representation		**1,376,719**	378,128
Litigation		**1,333,553**	643,402
Supplies		**1,151,870**	1,458,030
Fuel and lubricants		**818,935**	104,292
Repairs and maintenance		**364,476**	523,585
Others		**5,977,876**	2,147,892
		P 347,312,682	P 286,581,782

20. EMPLOYEE BENEFITS

20.1 Salaries and Other Benefits

Details of this account are presented below.

	Notes	2022	2021
Short-term employee benefits		**P 98,757,033**	P 64,474,033
Post-employment benefit	20.2	**3,582,280**	1,569,311
	19.2	**P 102,339,313**	P 66,043,344

20.2 Post-employment Benefit Obligation

(a) Characteristics of the Defined Benefit Plan

The Bank has not yet established a formal post-employment plan. However, it accrues the estimated cost of post-employment benefits, actuarially determined, required by the provisions of R.A. No. 7641, *The Retirement Pay Law*, which is a noncontributory post-employment defined benefit plan covering all regular full-time employees.

Under R.A. No. 7641, the Bank is required to provide minimum post-employment benefits to qualified employees. The Bank contributes to a multi-employer retirement fund, which is administered by a trustee bank.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions. The amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2022 and 2021.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	2022	2021
Present value of the obligation	**P 13,536,379**	P 6,766,147
Fair value of plan assets	**(954,995)**	(1,236,002)
	P 12,581,384	P 5,530,145

The movements in the present value of the obligation are presented below.

	2022	2021
Balance at beginning of year	**P 6,766,147**	P 5,011,277
Current service cost	**3,582,280**	1,569,311
Remeasurements – actuarial losses (gains) arising from:		
Change in financial assumptions	**(7,597,537)**	-
Experience adjustments	**10,440,416**	-
Interest expense	**345,073**	185,559
Balance at end of year	**P 13,536,379**	P 6,766,147

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

		2022		2021
Balance at beginning of year	**P**	**1,236,002**	P	1,206,441
Actuarial loss on plan assets	**(**	**344,043)**		-
Interest income		**63,036**		29,561
Balance at end of year	**P**	**954,995**	P	1,236,002

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

		2022		2021
Cash	**P**	**573**	P	124
Debt securities:				
Government bonds		**253,838**		688,206
Corporate bonds		**96,741**		63,036
Equity securities		**311,997**		386,374
Unit investment trust funds		**4,584**		97,273
Others		**287,262**		989
Balance at end of year	**P**	**954,995**	P	1,236,002

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). The fair value of commercial properties does not have quoted prices and have been determined based on professional appraisals that would be classified as Level 3 of the fair value hierarchy.

The actual return on plan assets amounted to P0.06 million and P0.03 million in 2022 and 2021, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

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

		2022		2021
Reported in profit or loss:				
Current service cost	**P**	**3,582,280**	P	1,569,311
Net interest expense		**282,037**		155,998
	P	**3,864,317**	P	1,725,309

	2022	2021
Reported in other comprehensive loss –		
Actuarial losses (gains) arising from:		
Experience adjustments	**P 10,440,416**	P -
Change in financial assumptions	**(7,597,537)**	-
Actuarial loss on plan assets	**344,043**	-
	P 3,186,922	P -

Current service costs form part of the Salaries and other benefits under Other Operating Expenses account, while net interest expense is presented as part of Interest Expense in the statements of comprehensive income.

Amounts recognized in other comprehensive income or loss were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2022	2021
Discount rates	**7.30%**	5.10%
Expected rate of salary increase	**4.00%**	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 14years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities, and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment benefit obligation as of December 31, 2022 and 2021:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+1.0%/-1.0%	(P 768,107)	P 950,812
Salary growth rate	+1.0%/-1.0%	895,428	(741,560)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

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

(ii) Asset-liability Matching Strategies

The Bank and trustee bank have no specific matching strategy between the plan assets and the plan obligation

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P12.58 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The Bank expects to make contribution of P12.58 million to the plan during the next reporting period.

The weighted average duration of the post-employment benefit obligation at the end of the reporting period is 14 years.

21. TAXES

The components of tax expense reported in the statements of comprehensive income is as follows:

	2022	2021
Reported in profit or loss:		
Final tax at 20%	**P 17,836,254**	P 14,577,162
MCIT at 1%	**2,614,815**	1,279,261
	20,451,069	15,856,423
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(753,686)**	3,253,428
	P 19,697,383	P 19,109,851
Reported in other comprehensive loss –		
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(P 796,731)**	P 9,956

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

	2022	2021
Tax on pretax profit at 25%	P 17,903,629	P 13,987,802
Tax effect of non-deductible expenses	6,219,637	5,694,893
Adjustment for income subjected to lower tax rates	(4,876,001)	(3,644,291)
Excess MCIT over RCIT	450,118	-
Effect of change in income tax rate	-	3,071,447
Tax expense	P 19,697,383	P 19,109,851

The net deferred taxes as of December 31, 2022 and 2021 relates to the following:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income (Loss)	
	2022	2021	2022	2021	2022	2021
Impairment allowances for:						
Loans and other receivables	P 12,135,690	P 10,728,247	P 1,407,443	P 2,272,178	P -	P -
Other resources	38,725	38,725	-	(84,762)	-	-
Investment properties	-	-	-	(98,197)	-	-
Retirement benefit obligation	3,145,345	1,382,536	966,078	251,041	796,731	(9,956)
Lease liabilities	2,492,420	2,358,436	133,984	218,027	-	-
Right-of-use assets	(2,315,995)	(2,196,065)	(119,930)	(104,554)	-	-
MCIT	1,496,658	1,496,658	-	1,279,261	-	-
Net Operating Losses Carry Over (NOLCO)	-	1,633,889	(1,633,889)	(6,921,498)	-	-
Accumulated depreciation on investment properties	-	-	-	(64,924)	-	-
Total deferred tax assets - net	P 16,992,843	P 15,442,426				
Deferred tax income (expense)			P 753,686	(P 3,253,428)	P 796,731	(P 9,956)

The Bank did not recognize the deferred tax asset arising from MCIT amounting to P2.45 million as of December 31, 2022, as management believes that there is no assurance that the tax benefits could be realized within the prescribed period. There was no similar assessment made in 2021.

The Bank is subject to MCIT, which is computed at 1% of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. In 2022 and 2021, the Bank recognized MCIT, as MCIT was higher than RCIT in both years.

The details of the Bank's MCIT are as follows:

Year Incurred	Amount	Applied Amount	Expired Amount	Remaining Balance	Valid Until
2022	P 2,614,815	P -	P -	P 2,614,815	2025
2021	1,333,610	-	-	1,333,610	2024
2020	163,048	163,048	-	-	2023
	P 4,111,473	P 163,048	P -	P 3,948,425	

Pursuant to Section 4(bbb) of R.A. No. 11494, *Bayanihan to Recover as One*, the NOLCO for taxable years 2020 and 2021 can be claimed as deduction within five consecutive years immediately following the year of such loss. In 2020, the Bank incurred NOLCO amounting to P28,517,958 which is valid until 2025. In 2022, the Bank fully utilized its NOLCO.

In 2022 and 2021, the Bank opted to claim itemized deductions in computing for its income tax due.

22. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of December 31, 2022 and 2021 is presented below.

Related Party Category	Notes	**2022** Amount of Transaction	**2022** Outstanding Balance	2021 Amount of Transaction	2021 Outstanding Balance
DOSRI:					
Grant and payment of loans	22.1	**P 6,375,564**	**P 14,497,316**	P 6,375,564	P 14,497,316
Deposit liabilities	22.1	**50,921,368**	**(24,290,627)**	50,921,368	(24,290,627)
Other related parties –					
Cash agent transactions	10, 17, 22.2	**5,096,216,478**	**74,429,244**	2,503,394,992	62,238,171
Commission expense	22.2	**28,981,408**	**-**	60,004,875	-
Key Management Personnel –					
Compensation	22.3	**38,707,473**	**-**	28,653,128	-

22.1 Transactions with Directors, Officers, Stockholders and Related Interest

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

The General Banking Law limits the amount of direct credit accommodation to DOSRI, 70% of which must be secured and should not exceed the total of their respective deposits and book value of their respective investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the respective total capital funds or 15% of the Bank's total loan portfolio.

BSP Circular No. 423 dated March 15, 2004, amended the definition of DOSRI accounts. As of December 31, 2022 and 2021, the Bank is in compliance with these regulations.

22.2 Cash Agent Transactions

The Bank has executed cash agency agreements with its various affiliated companies under P.J. Lhuillier Group of Companies (PJLI or Cash Agents), wherein PJLI is authorized to accept deposits and facilitate withdrawals and other services as may be allowed under BSP Circular No. 940, *Guidelines on Deposit and Cash Servicing Outside of Bank Premises.* In 2022 and 2021, total remittances from Cash Agents amounted to P5.10 billion and P2.50 billion, respectively.

In 2021, the Bank entered into an agreement with the Cash Agents, wherein the Cash Agents would facilitate debit card services on behalf of the Bank. In relation to the facilitation of debit card services, the Bank paid commission to Cash Agents amounting to P28.98 million and P60.00 million in 2022 and 2021, respectively, and is presented as Commissions under Other Operating Expenses in the statement of comprehensive income (see Note 19.2).

Cash agent transactions resulted to a net payable to Cash Agents amounting to P74.43 million and P62.24 million as of December 31, 2022 and 2021, respectively, and is presented as Receivable from cash agents under Loans and Other Receivables in the statement of financial position (see Note 10).

22.3 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

		2022		2021
Short-term employee benefits	**P**	**37,161,339**	P	27,829,413
Post-employment benefits		**1,546,134**		823,715
	P	**38,707,473**	P	28,653,128

Short-term benefits paid to key management employees are presented as part of Salaries and other benefits under Other Operating Expenses in the statements of comprehensive income (see Notes 19.2 and 20.1).

22.4 Retirement Plan

The Bank's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in government and corporate bonds, equity securities, and cash and cash equivalents with fair value totaling P0.95 million and P1.24 million as of December 31, 2022 and 2021, respectively. The retirement fund has no outstanding deposits or investment in the Bank as of December 31, 2022 and 2021.

The details of the contributions of the Bank are presented in Note 20.2(b).

23. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2022 and 2021, management is of the opinion that losses, if any, from these items will not have a material effect on the Bank's financial statements.

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

a) *Selected Financial Performance Indicators*

The following are some of the financial performance indicators of the Bank:

	2022	2021
Return on average equity:		
Net profit after income tax / Average total equity	**14.18%**	13.50%
Return on average resources:		
Net profit after income tax / Average total resources	**0.88%**	0.73%
Net interest margin:		
Net interest income / Average interest earning resources	**4.26%**	3.13%

b) *Capital Instruments Issued*

The capital instrument issued by the Bank comprises only of common shares. Moreover, the Bank has 2,000,000 and 1,000,000 common shares, which were issued and outstanding as at December 31, 2022 and 2021, respectively.

c) *Significant Credit Exposures for Loans*

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

	2022		2021	
	Amount	**Percentage**	Amount	Percentage
Real estate activities	**P 570,159,746**	**35.75%**	P 370,828,395	41.39%
Construction	**67,443,330**	**4.23%**	9,620,837	1.07%
Wholesale and retail trade	**57,550,265**	**3.61%**	46,321,143	5.17%
Financial intermediaries	**47,400,843**	**2.97%**	-	-
Agriculture, forestry and fishing	**26,842,784**	**1.69%**	68,202,370	7.61%
Accommodation and food service activities	**3,267,904**	**0.20%**	3,462,901	0.39%
Transportation and storage and communication	**2,852,131**	**0.18%**	4,948,129	0.55%
Human health and social work activities	**266,322**	**0.02%**	2,411,547	0.27%
Manufacturing	**46,688**	**0.00%**	38,907	0.00%
Electricity, gas, steam and water	**-**	**0.00%**	817,282	0.09%
Government	**-**	**0.00%**	327,067	0.04%
Other service activities	**818,972,950**	**51.35%**	388,895,406	43.41%
	P1,594,802,963	**100.00%**	P 895,873,984	100.00%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital. In 2021 and 2020, the Bank has significant credit exposures to certain industries.

As of December 31, 2022 and 2021, 10% of Tier 1 capital amounted to P27.63 million and P32.59 million, respectively, and the table below shows the two industry groups exceeding this level.

		2022	2021
Real estate activities	P	**570,159,746**	370,828,395
Construction		**67,443,330**	9,620,837
Wholesale and retail trade		**57,550,265**	46,321,143
Financial intermediaries		**47,400,843**	-
Other service activities		**818,972,950**	388,895,406

d) Credit Status of Loans

The breakdown of receivable from customers as to status is shown below.

	2022		
	Performing	**Non-performing**	**Total**
Gross Carrying Amount:			
Salary loans	P 653,004,344	P 44,693,384	P 697,697,728
Housing loans	496,555,808	21,059,274	517,615,082
Consumer loans	69,857,986	1,355,850	71,213,836
Commercial loans	174,127,459	-	174,127,459
Small and medium-sized entities	57,624,828	11,659,089	69,283,917
Loans for other purposes	20,970,098	1,255,375	22,225,473
Agra and other agri credits	21,148,739	5,694,045	26,842,784
Auto loans	951,432	1,103,463	2,054,895
Microfinance loans	1,919,346	1,657,660	3,577,006
Motorcycle loans	8,867,817	114,325	8,982,142
Under litigation	-	1,182,641	2,358,207
	1,505,027,857	89,775,106	1,594,802,963
Allowance for ECL	(34,346,304)	(14,196,452)	(48,542,756)
Net Carrying amount	**P1,470,681,553**	**P 75,578,654**	**P 1,546,260,207**

	2021		
	Performing	Non-performing	Total
Gross Carrying Amount:			
Salary loans	P 316,942,234	P 21,611,885	P 338,554,119
Housing loans	312,515,657	12,811,900	325,327,557
Agra and other agri credits	130,540,976	5,699,163	136,240,139
Consumer loans	38,158,509	-	38,158,509
Loans for other purposes	29,133,771	484,879	29,618,650
Small and medium-sized entities	15,041,797	2,569,221	17,611,018
Auto loans	2,336,972	1,214,922	3,551,894
Microfinance loans	2,305,156	882,023	3,187,179
Under litigation	-	3,624,919	3,624,919
	846,975,072	48,898,912	895,873,984
Allowance for ECL	(25,123,905)	(17,789,085)	(42,912,990)
Net Carrying amount	P 821,851,167	P 31,109,827	P 852,960,994

As at December 31, 2022 and 2021, the nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2022	2021
Gross NPLs	**P 86,850,898**	P 48,898,912
NPLs fully covered by allowance for impairment	**(33,198,714)**	(17,789,085)
	P 53,652,184	P 31,109,827

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

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

Restructured loans amount to P3.37 million and P10.04 million as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounted to nil and P0.47 million as of December 31, 2022 and 2021, respectively.

Interest income recognized on impaired loans and receivables amounted to P0.08 million and P0.40 million in 2022 and 2021, respectively.

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

The breakdown of loans as to secured and unsecured (gross of unearned discounts and allowance for impairment) follows:

	2022	2021
Secured	**P 646,259,275**	P 442,674,250
Unsecured	**948,543,688**	453,199,734
	P 1,594,802,963	P 895,873,984

f) Information on Related Party Loans

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

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

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as at December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		**Related Party Loans (inclusive of DOSRI)**	
	2022	2021	**2022**	2021
Total outstanding loans	**P 11,012,188**	P 14,497,316	**P 14,497,316**	P 14,497,316
% of loans to total loan portfolio	**0.69%**	1.62%	**1.57%**	1.57%
% of unsecured loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of past due loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

g) Secured Liabilities and Assets Pledged as Security

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2022 and 2021.

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

The Bank has no commitments and contingent accounts arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of the end of reporting period.

25. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under Revenue Regulations (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding pages.

(a) *Gross Receipt Tax*

In lieu of value-added taxes, the Bank is subject to gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking transactions pursuant to Section 121 of the Tax Code, as amended.

In 2022, the Bank reported total GRT amounting to P15.72 million, which is shown as part of Taxes and licenses under Other Operating Expenses account in the 2022 statement of comprehensive income.

Details of the tax bases of GRT and their corresponding tax rate follow:

Tax Rate	Tax Base	Amount
7%	P 138,608,514	P 9,702,596
5%	112,232,860	5,611,643
1%	40,692,600	406,926
	P 291,533,974	**P 15,721,165**

(b) *Documentary Stamp Tax*

In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments, security documents, certificates of deposits and bills of exchange.

For the year ended December 31, 2022, DST affixed amounted to P7.65 million representing documentary stamps imposed mainly on debt instruments issued during the year, of which were all charged to the Bank's clients, hence, not reported as part of the Bank's expenses. While DST imposed on documents other than the debt instruments issued amounted to P1.00 million and is presented as part of Taxes and licenses under Other Operating Expenses account in the 2022 statement of comprehensive income.

(c) *Taxes on Importations*

The Bank has not paid or accrued any tax on importation as it has no importation for the year ended December 31, 2022.

(d) *Excise Tax*

The Bank did not have any transaction in 2022, which is subject to excise tax.

(e) Taxes and Licenses

The details of this account presented under Other Operating Expenses in the 2022 statement of comprehensive income follow:

GRT	P	15,721,165
DST		1,000,000
Business permits and other licenses		1,440,110
	P	18,161,275

(f) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2022 are shown below.

Expanded	P	3,330,530
Compensation and employee benefits		11,365,074
Final		12,012,440
	P	**26,708,044**

(g) Deficiency Tax Assessments and Tax Cases

As of December 31, 2022, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.