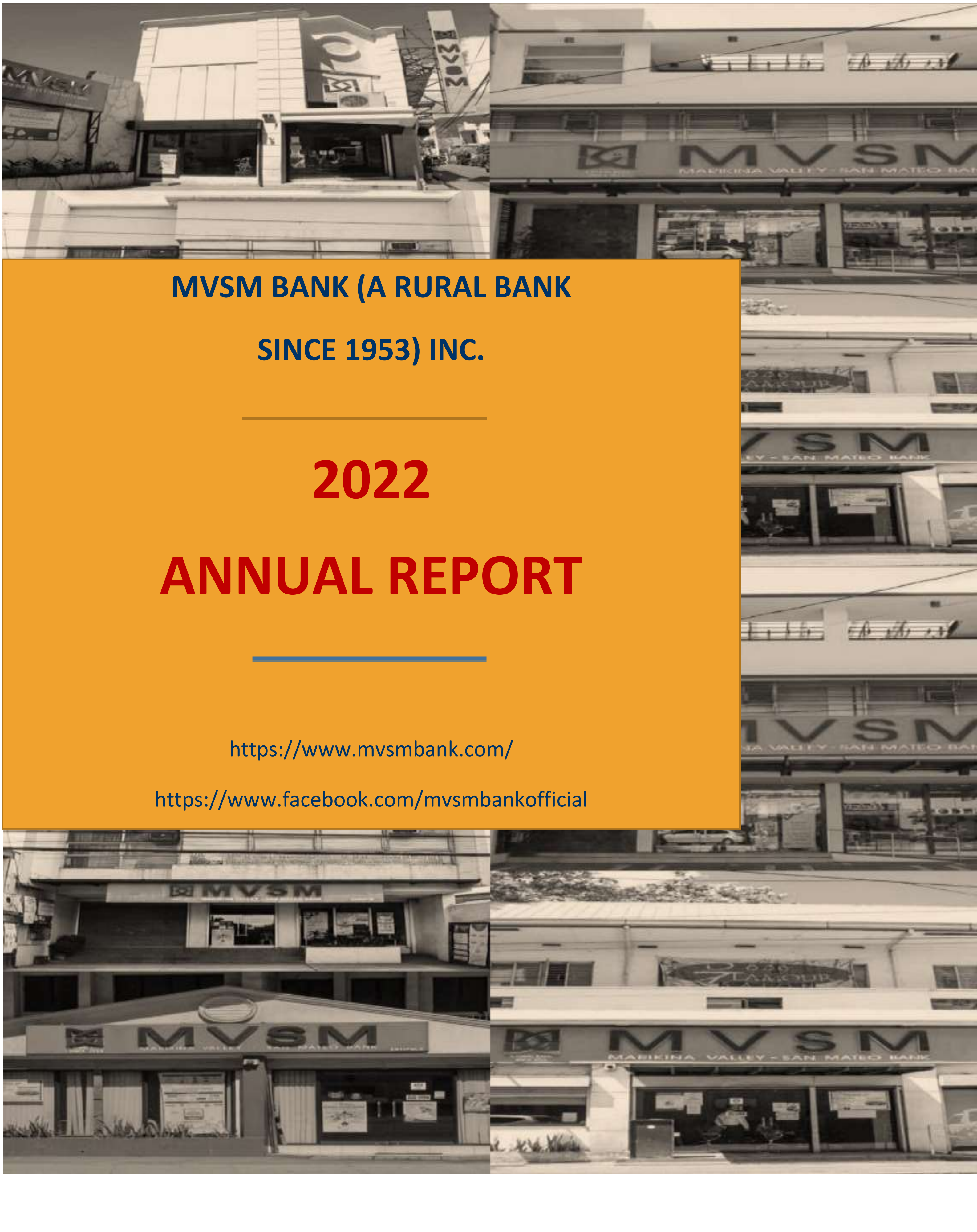


MVSM BANK (A RURAL BANK SINCE 1953) INC.

2022 ANNUAL REPORT

https://www.mvsmbank.com/

https://www.facebook.com/mvsmbankofficial

Table of Contents

1. Corporate Policy

a. Mission and Vision Statement of MVSM Bank

Mission

To give *excellent* and reliable financial services to as many customers in an atmosphere where clients feel “at home”.

Vision

By 2030, to be in the top 20 rural banks of the Philippines in terms of Total Resources and with financial ratios superior to that of the industry, making it a trustworthy, but dynamic financial institution benefiting from enhanced customer experience and digital transformation.

Objectives:

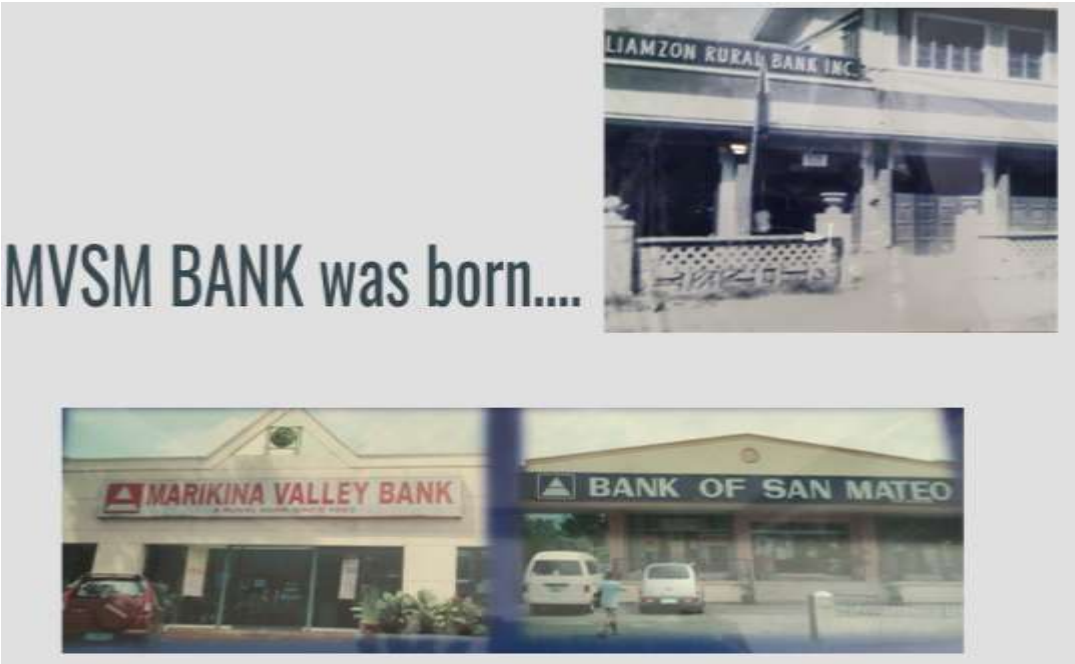
1. Expand the client-base by the following:
   a) Open more Branch Lite Units
   b) Complete digitalization
   c) Digital advertising campaign
   d) Investing in Communities

2. Enhance Operations Risk Management

3. Adoption of Sustainability Financing

b. **Introduction of the Bank's brand that differentiates it from other Banks**

Established in 1953, LIAMZON RURAL BANK (which was later renamed Marikina Valley Rural Bank) was the very first bank in the Municipality of Marikina. In 2008, upon the approval of the BSP and the SEC, Bank of San Mateo (established 1960) and Marikina Valley Rural Bank merged into MVSM BANK (A Rural Bank Since 1953).



Both Banks are pioneers in their respective towns in Marikina and San Mateo and both have earned its reputation as being formidable, reliable and efficient community Banks that have withstood the test of time. Not quite a digital bank yet, but a brick and mortar Bank where clients can expect personal services where clients feel at home. Slowly but surely, the Bank is venturing into the digital space. In 2021, the Bank benefited from the use of the i2i payment portal powered by UBX, a Union Bank subsidiary and we are also an active participant of the National Retail Payment System thru PESONET, allowing it to perform inter-bank transactions.

The transition team is handling the migration from MBWin by MB Phils. to a digital-based solution. Also engage in Zoom Video Conferencing and the activation of Google Workspace subscription, a collaboration platform is thru Kollab Guru Group Inc., the leading Google Cloud Premier Partner in Southeast Asia.

In spite of all these initiatives, the Bank will continue to provide the same personal service be it on site, or via new online channels

c. Business model of the Bank

i. Deposit Generation

The Bank will continue to generate new clients through its one-stop center for various financial services. This includes deposit and loan products, money remittance, bills payment center etc.

Aside from this, the Bank has partnered with private and government institutions to expand its customer base by way offering more products thru cross-selling.

The Bank is also set to open the 2nd Branch Lite Unit on 06 February 2023 in a high traffic location in Pasig City. In the pipeline is another branch in Teresa, Rizal and set to open before 2023 ends.

ii. Loan Diversification

The Bank's target market is the BCD Class. The loan limits are geared towards MSME clients.

More confident with the Bank's credit scoring model and the availment of government credit guarantees, we have ventured into higher loan limits which helped arrest the decline in the Bank's lending portfolio because of COVID. Further to this, the use of information from alternative sources such Transunion will play a very vital role in the Bank's credit underwriting.

The Bank is now open to clean-loan lending with loans collateralized with tax declaration.

2. Financial Summary / Highlights

A two (2) Year comparative presentation of selected profitability, capital, performance, and balance sheet data/ratios (based on AFS 2022), as follows:

	PARENT ENTITY(SOLO)	
MINIMUM REQUIRED DATA	31-DEC-22	31-DEC-21
SELECTED BALANCE SHEET DATA		
Total Asset	1,524,510,423	1,389,826,059
Liquid Asset	191,858,929	126,158,386
Gross Loans	634,574,398	603,110,296
Deposit	1,264,785,938	1,160,675,483
Equity	213,344,668	196,883,908
INCOME STATEMENT		
Net Interest Income	74,204,287	64,928,111
Non-Interest Income	18,147,204	22,145,349
Non-Interest Expense	65,157,541	65,602,716
Pre-provision profit	27,193,950	21,470,744
Income After tax	19,235,500	11,013,230

SELECTED RATIO

Profitable		
Return of Equity	9.38%	5.76%
Return of Assets	1.32%	0.81%
Margins and Liquidity		
Net Interest Margin	6.04%	5.69%
Minimum Liquidity Ratio	46.92%	46.64%
Capital		
Total Tier 1Ratio	12.19%	13.07%
Capital Adequacy Ratio	15.69%	16.54%

OTHERS

Cash Dividends Declared	12,251,655	9,529,065.00
Branches	9	9
Branch-Lite Unit (BLU)	1	1
Employee Head Count	81	81
Officers	30	29
Staff	51	51

Consolidated amounts of Parent and Subsidiaries

3. Financial Conditions & Results of Operation

Review and Results of Operations

Major development in the world arena was the Ukraine invasion of Russia created havoc on world economies in terms of oil prices and food security. The peso weakened vs. the US dollar. Add to that in June 2022 inflation hit a 3-year high at 6.6% and inflation has been on upward trend ever since. In order to address this, the BSP used its monetary tools to slow down inflation. While interest rates have increased, inflation has not slowed down.

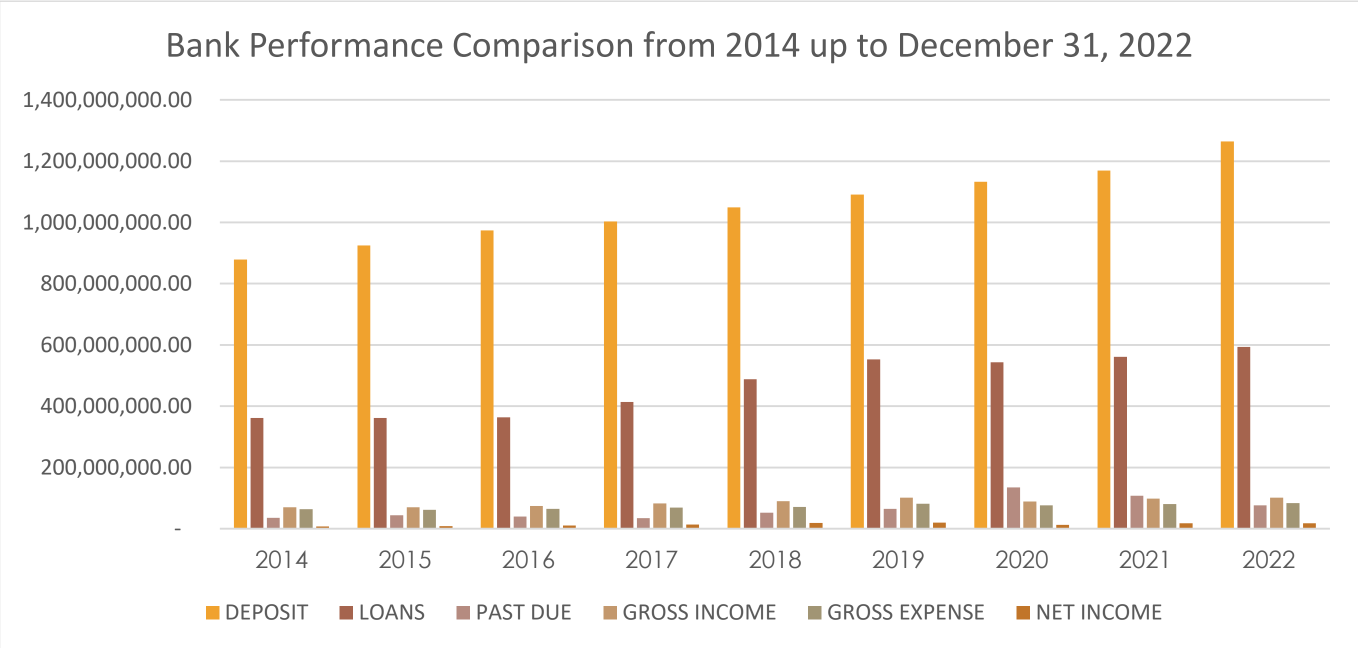
This gives the clients of MVSM less purchasing power. However, this has not yet been felt as there are no reported significant early warning signs of default at the moment. Perhaps a protracted war and poor macroeconomic policies and tools by the government could possibly translate to higher default rates. But at the moment the Bank does not foresee this happening.

In fact, according to the article published by the Banker's Institute of the Philippines, of which the Bank is a member, "Lending growth in October fastest in nearly 4 years. Despite rising interest rates, bank lending expanded in October at the fastest pace in nearly four years, the Bangko Sentral ng Pilipinas (BSP) said. Outstanding loans by big banks, net of reverse repurchase (RRP) placements with the central bank, jumped by 13.9% year on year in October to P10.56 trillion. This was slightly faster than the 13.4% loan growth in September. October credit growth was the fastest in nearly four years or since the 15.3% expansion posted in January 2019". And this growth has been felt as well by MVSM BANK.

In terms of ECL, the model continues to provide a COVID overlay of 2% for Housing Loan & 4% for MSME Loans, and the forward looking assumptions used is the Consumer Price Index (CPI). However, at the time the model was reviewed, the inflation rate was lower. Given this, heightened monitoring of default will be conducted by the Bank. Validation of the model, and review of the parameters used will be done for 2022.

Major milestone, another branch-lite unit is expected to be opened on 2023 in Caniogan, Pasig City. Another noteworthy milestone MVSM continues to take an active role in government initiatives for financial inclusion as the Bank's digital transformation is moving full speed ahead. The Bank is still a participant in the government guarantee program thru Philguarantee.

Bank Performance Comparison from 2014 up to December 31, 2022 are as follows:



Here are some key financial indicators for 2022 based on the unaudited FS):

1. Capital Adequacy Ratio reached its highest at 16.54% last December 31, 2021. All throughout the pandemic, there was no threat to capital deterioration.

   Cash dividends were declared in 2020, 2021 and in 2022.

Year-end	CAR
2018	15.82%
2019	15.35%
2020	15.18%
2021	16.54%
2022	15.69%

2. The net income of the Bank showed a significant drop resulting from the economic slowdown in 2020 but in 2021 and 2022 the loan portfolio and the net income surpassed pandemic income. The bank is continuously implementing cost-cutting measures and continuously releasing new loans.

YEAR-END	TOTAL LOAN PORTFOLIO	NET INCOME
2018	487,823,758.96	18,754,289.05
2019	553,140,414.35	19,686,916.93
2020	543,487,872.98	12,094,416.99
2021	561,378,664.95	17,826,571.11
2022	593,342,422.39	17,896,887.06

3. Past due ratio remains above pre-pandemic levels as clients availed of the Bayanihan to Heal as One (BAHO) and Bayanihan to Recover as One (BARO). Loan portfolio continuously decreasing indicating a return to economic activity after the pandemic.

YEAR-END	PAST DUE PHP	Past Due Ratio (PDR)
2018	51,787,987.87	10.62%
2019	64,580,408.46	11.68%
2020	135,166,644.22	24.87%
2021	107,987,128.61	19.24%
2022	76,622,861.38	12.91%

4. Another major revenue center has been contributing a sizeable portion to the Bank’s total income, Bayad Center Service Fees Php973,010.54for Dec 2022. Although over the years, with the advent of new payment portals, the income from BC has considerably decreased.

5. The ROPA portfolio is decreasing. And while it is expected that income from ROPA will still contribute significantly to the income of the Bank, it's percentage contribution total income has decreased already.

YEAR-END	Gross ROPA (in PHP)	% of ROPA to Total Assets
2018	191,607,984.30	15.57%
2019	176,512,659.41	13.27%
2020	171,345,761.38	12.61%
2021	166,618,556.81	11.86%
2022	179,768,951.63	11.88%

6. The Bank's liquidity level still remains at acceptable levels as the Liquid Assets to Total Deposit ratio which stands at 48.83%as of 31 December 2022. The remain well within industry standards and given the Bank's high liquidity level, monitoring continues to be done in order to maximize returns.

7. In terms of its organization, its manpower complement is adequate. Turnover was minimal. Employee engagement activities were conducted, salary increase and bonuses were given in 2022. Wellness activities all throughout the year were conducted for the benefit of the staff. Training and development continue to be an important part of the Bank's strategy.

Christmas Party 2022


WILD WEST
PARTY

8. The Compliance Program is in place and the Chief Compliance Officer together with her Assistant Chief Compliance Officer continuously monitors Bank activities in order to ensure the Bank's adherence to its internal policies, government regulations etc.

9. The Internal Audit Dept. requested to extend the Audit Plans and Programs from 1 year to 2 years to allocate more audit time to auditable areas. It will also maintain the audit risk at a manageable level and will allow the IAD to allocate more time to high-risk activities and accounts. This request was discussed extensively during the Audit Committee meeting and was approved by the Board.

10. As Last June 18, 2022, we celebrated our 69 years anniversary. Our theme for the year-long anniversary is AT HOME KA DITO sa MVSM Bank. This 2022, we will still continue with our tagline – AT HOME KA DITO. This will give our clients and future clients something easy to recall and remember when they hear the name MVSM Bank.

    The Bank realizes the needs to transform the way it reaches out to its clients and potential clients. The channels of marketing have changed and the Bank has prepared several initiatives for 2023, as follows:

    a. Increase market reach through social media (Facebook);
    b. Improving bank appearance/aesthetics;
    c. Intensify marketing of Loans;
    d. Intensify marketing of Deposits;
    e. Intensify marketing of ROPA;
    f. Promote Non-banking products;
    g. Giving of corporate giveaways;
    h. Update our website more regularly;
    i. MVSM BANK Anniversary for 2023-70th year;
    j. Identify and monitor dormant accounts so that clients can revive their Accounts;
    k. Intensify the security of branches;
    l. Managers to make client calls and Visits; and
    m. Promotion of our new MVSM Bank – Branch units in San Mateo & Pasig and soon to open Teresa-Branch Lite

11. To give the stakeholders a better appreciation of the Branch's performance:

12. To give the stakeholders a better appreciation of the Branch's performance:

a. Deposits

Deposits	# of Accounts	Demand	# of Accounts	Savings	# of Accounts	Time	TOTAL	
Head Office	72	1,622,391.26	3,086	171,897,391.26	258	186,870,536.25	3,416	360,390,318.77
Antipolo	18	269,857.25	653	25,377,404.82	10	3,655,322.30	681	29,302,584.37
Binangonan	32	2,977,574.45	3,741	93,753,067.30	51	12,764,834.90	3,824	109,495,476.65
Concepcion	9	126,061.35	1,922	38,756,214.18	22	9,726,142.04	1,953	48,608,417.57
Pasig	44	1,120,851.92	3,100	213,133,003.37	46	35,278,177.61	3,190	249,532,032.90
Pililla	23	1,703,980.32	723	25,685,447.33	8	2,271,857.11	754	29,661,284.76
Rosario	15	964,029.59	1,731	36,026,314.53	16	3,392,432.31	1,762	40,382,776.43
San Mateo	69	1,560,301.89	6,702	214,333,251.13	277	144,401,273.65	7,048	360,294,826.67
Tanay	26	227,325.38	737	15,562,465.40	9	2,267,518.17	772	18,057,308.95
Taytay	17	165,106.25	541	13,392,626.26	8	5,385,121.21	566	18,942,853.72
Balance as of 12/31/22	325	10,737,479.66	22,936	847,917,185.58	705	406,013,215.55	23,966	1,264,667,880.79
Balance as of 12/31/21	319	12,019,134.05	22,181	758,715,672.86	758	398,829,313.07	23,258	1,169,564,119.98
Increase/(Decrease)	**6**	**(1,281,654.39)**	**755**	**89,201,512.72**	**(53)**	**7,183,902.48**	**708**	**95,103,760.81**

b. Loans

Loans	Current	Past Due-Performing	Past Due-Non-Performin	Litigation	# of Accounts	TOTAL
Head Office	148,792,363.59	-	21,961,920.40	11,781,427.24	1,283	182,535,711.23
Antipolo	67,732,296.76	60,702.53	7,966,037.08	156,424.75	75	75,915,461.12
Binangonan	33,731,907.32	3,441,480.26	61.00	-	160	37,173,448.58
Concepcion	24,873,388.34	-	2,555,521.68	-	170	27,428,910.02
Pasig	54,842,190.70	-	367,359.42	13.00	220	55,209,563.12
Pililla	14,479,350.04	5,084,474.77	4,517,813.96	128,973.97	121	24,210,612.74
Rosario	34,893,634.79	326,132.91	3,325,018.41	1.00	102	38,544,787.11
San Mateo	89,539,003.23	230,957.36	5,162,734.17	193.00	353	94,932,887.76
Tanay	32,618,050.62	-	3,214,824.93	-	45	35,832,875.55
Taytay	19,610,325.54	491,182.59	1,456,630.03	27.00	134	21,558,165.16
Balance as of 12/31/22	521,112,510.93	9,634,930.42	50,527,921.08	12,067,059.96	2,663	593,342,422.39
Balance as of 12/31/21	453,391,536.34	17,964,936.75	78,051,545.93	11,970,645.93	2,426	561,378,664.95
Increase/(Decrease)	**67,720,974.59**	**(8,330,006.33)**	**(27,523,624.85)**	**96,414.03**	**237**	**31,963,757.44**

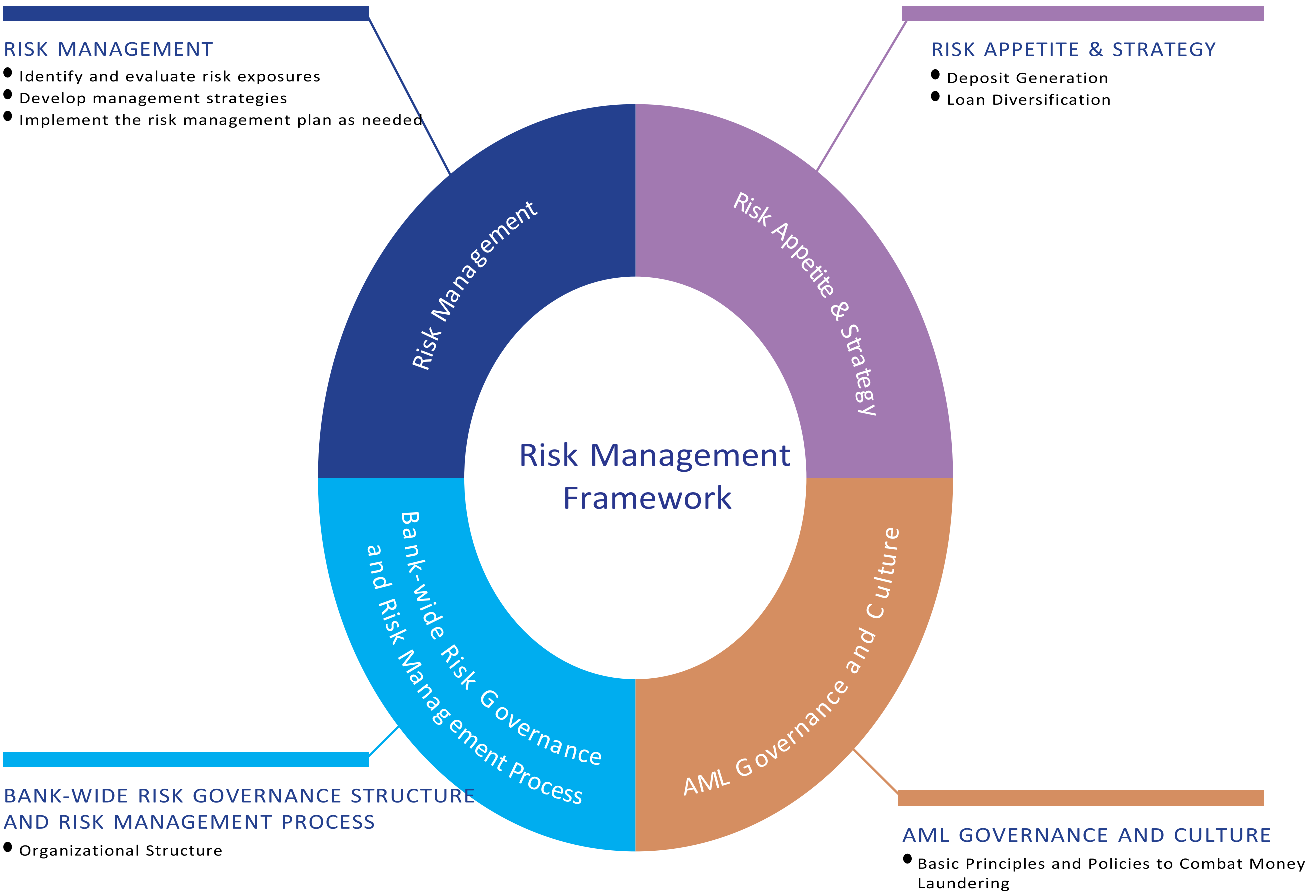
MVSM BANK
(a rural bank since 1953)

c. Net income

Income	Net Interest Income	Non-Interest Income	Non-Interest Expense	Provision for Credit Losses on Loans	Income Tax Expense	Net Profit/(Loss)
Head Office	33,876,226.89	8,832,249.80	22,584,414.13	572,800.00	8,769,846.90	10,781,415.66
Antipolo	7,165,348.54	1,106,799.19	5,122,558.89	280,726.08	26,634.30	2,842,228.46
Binangonan	3,654,173.21	1,353,968.57	3,575,079.51	238,250.00	10,157.85	1,184,654.42
Concepcion	3,012,191.63	563,235.20	5,632,292.83	125,196.67	618.98	(2,182,681.65)
Pasig	5,309,402.02	1,153,381.07	5,848,688.30	107,210.91	7,449.72	499,434.16
Pililla	3,008,398.62	293,435.57	2,950,471.26	18,380.00	328.17	332,654.76
Rosario	4,910,555.69	1,555,757.36	4,920,530.12	151,900.00	12,885.19	1,380,997.74
San Mateo	7,285,980.45	2,056,728.09	7,840,861.77	363,810.00	19,780.43	1,118,256.34
Tanay	4,339,498.31	646,015.81	3,647,656.78	89,460.00	13,244.52	1,235,152.82
Taytay	2,847,554.02	831,633.76	2,938,111.34	28,520.00	7,782.09	704,774.35
Balance as of 12/31/22	75,409,329.38	18,393,204.42	65,060,664.93	1,976,253.66	8,868,728.15	17,896,887.06
Balance as of 12/31/21	66,124,170.24	21,550,864.07	60,146,161.63	1,661,456.23	8,040,845.34	17,826,571.11
Increase/(Decrease)	9,285,159.14	(3,157,659.65)	4,914,503.30	314,797.43	827,882.81	70,315.95

4. Risk Management Framework Adopted

This section highlights the Bank's Board-approved Risk Management framework and should include at a minimum the following information:



MVSM BANK
(a rural bank since 1953)

a. Overall risk management culture and philosophy

The Bank is considered a simple/non-complex bank, the Audit committee discusses Risk Management and Corporate Governance matters in their meetings, duties and responsibilities includes:

The Risk Management function is the responsibility of the Board of Directors thru the Audit Committee. It is responsible for overseeing the risk-taking activities of the Bank, as well as evaluating whether these remain consistent with the Bank's risk appetite and strategic direction. The risk management function shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense.

Role of Audit Committee in Risk Management

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

1) Oversee the risk management framework. The Committee shall oversee the risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

2) Oversee adherence to risk appetite. The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

3) Oversee the risk management function. It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the Bank.

4) Identify and evaluate risk exposures. The Committee shall assess the probability of each risk becoming real and shall estimate its possible effects and cost. Priority areas of concern are those risks that are most likely to occur and cost when they happen;

5) Develop management strategies. The Audit Committee shall develop a written plan defining the strategies for managing and controlling major risks. It shall identify practical strategies to reduce the chance of harm and failure to minimize the losses if the risk becomes real.

6) Implement the risk management plan as needed. The Committee shall evaluate the plan to ensure its continued relevant, comprehensiveness and effectiveness, it shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the Bank's overall risk exposures, actions taken to reduce the risks and recommend further action or plans as necessary.

The Board and Senior Management play an active role in risk oversight with the continuous trainings, regular meetings and updates.

Policies, procedures and limits on risk are regularly reviewed and enhanced accordingly.

Risk Management Practices and the Corresponding Risk Management Policy/Principles Adopted by the Bank's *Board for the Attainment of the said Mission and Goals*:

1. Assist in developing the Risk Management Policy and Process [to meet regulatory requirements in Risk Management / to manage critical to the Bank's operations, particularly the Operational Risks / to manage risks critical to the Bank's operations including non-financial risks / to manage risks critical to the Bank, including Strategic Risks].

2. Assist the Board to develop an overall Risk Management strategy, including specific strategies for capital and liquidity management

as well as for credit market, operation, compliance, reputational and other key risks of the Bank;

3. Provide analytical and administrative support to the operations of the executive -level risk committees and management in discharging their duties in relation to Risk Management;

4. Coordinate the development of a Business Continuity strategy and plans to ensure Business Continuity in the events of Business Interruption;

5. Keep up to date with development and changes in the legal / regulatory regime, external risk landscape, international standards and methodologies related to Risk Management; and

6. Supporting management to inculcate a Risk Culture throughout the organization.

b. Risk Appetite and Strategy

MVSM Bank's RISK APPETITE focuses on five Risk Management objectives namely:

1. Uphold Bank-wide highest ethical standards of conduct
2. Work towards the preservation of long-term financial resilience of the Bank
3. Prudent and conservative policies when investing public money
4. Ensure compliance with all legal and regulatory requirements
5. Maintain a robust internal control environment and ensure operational continuity specially in extra-ordinary times

MVSM Bank's STRATEGY, as follows:

The basic plan of the Bank is to continue with its conservative lending practices. It does not aim to compete head on with commercial banks. The Bank will continue its good relations with the community and its clients. There is a market for a “boutique” bank where clients feel at home and secure.

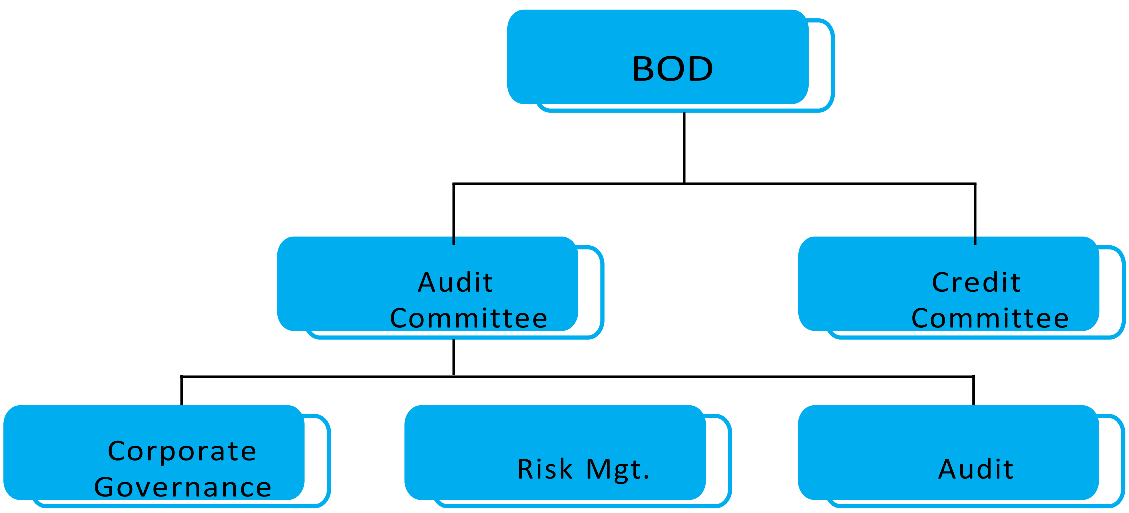
The expansion of the Bank's clientele will be via opening of Branch Lite units in high-traffic, strategically located areas and thru the use of Fintech products making use of the Bank's new corebanking system.

In the future, the Bank may look into possible partnerships/mergers with bigger institutions. But in the meantime, the Bank will continue to operate as a small community-based Bank. The pricing policy will continue to be the same.

c. Bank-wide risk governance structure and risk management process

The Audit Committee meets at least once a month or as the need arises and minutes are reported to the Board. The Audit Committee meets with the external auditors, Management and Internal Auditors to discuss matters that the Committee or each of these groups believe should be discussed.

ORGANIZATIONAL STRUCTURE



Role and Responsibilities of the following:

A. Role of Audit Committee in Risk Management

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

B. Internal Control/Audit and Compliance

The Internal Audit and Compliance in-charge of the overall control environment of the organization, the process of identifying, analyzing, managing risk, the adequacy of management information systems and adherence to control activities and promote effective and efficient operations, reliable financial and regulatory reporting and compliance with all relevant laws, rules and regulations and policies of the institution.

C. Role of Senior Management

The senior management is responsible for implementing the Board-approved risk strategy. It ensures that procedures and policies are applied consistently throughout the Bank and that all levels of staff are informed of their responsibilities with respect to risk management. Senior management is also in-charge of crafting policies, processes and procedures for managing risks according to the Board-approved risk management framework.

d. AML governance and culture, and description of the overall Money Laundering (ML)/ Terrorist Financing (TF) risk management framework is adopted to prevent the use of the bank for ML/TF activities.

Basic Principles and Policies to Combat Money Laundering

In line with the declaration of policy, the Bank shall apply the following principles:

1. The Bank shall conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system;

2. The Bank shall know sufficiently its customers at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the covered person by himself or otherwise;

3. The Bank shall adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

4. The Bank shall comply fully with this part and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

5. The Bank shall fully cooperate with Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA.

5. Corporate Governance

a. Overall corporate governance structure and practices

MVSM Bank is committed to continuously improve its corporate governance practices in order to remain an ethically driven corporation and will concentrate on the rights of shareholders, the fair treatment of shareholders, the treatment of stakeholders, disclosure and transparency and the duties of Board members. It involves systems, policies and processes for assuring proper accountability, integrity and openness in the conduct of the organization's business.

1. The role of Audit Committee in Corporate governance are as follows:

    a) Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors;

    b) Ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the Board and its Committees and Executive Management; and shall also conduct an annual self-evaluation of its performance. It shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be

MVSM BANK
(a rural bank since 1953)

adopted that address the competing time commitments that are faced when directors serve on multiple boards;

c) Recommendations to the Board regarding the continuing education of directors, assignment to Board committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance.

d) Decide the manner by which the Board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the Board has enhanced long term shareholders' value.

2. Meetings

The Corporate Governance matters are regularly discussed in its Audit Committee meetings.

b. Selection process for the Board and Senior Management

The members of the Board of Directors shall possess minimum qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities.

The Board of Directors shall apply fit and proper standards on key personnel, integrity, technical expertise and experience in the Bank, either current or planned, shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy vision and core values of the institution. The Board of Directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.

c. Board's overall responsibility

General responsibility of the Board of Directors

The position of a Bank Director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The Board of Directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

d. Description of the major role and contribution of the Chairman of the Board

The Chairman establishes the principles of good governance in the entire organization; undertakes every effort necessary to create awareness within the organization; provides guidelines that will direct Senior Management to attain best practices at every level of the organization; continuously monitor and evaluate Senior Management's performance in accordance with the Company's Mission and Vision.

e. **Board Composition**

Name of Directors	Type of Directorship	Principal Stockholder or Nominee	No. of Years Served as Directors	No. Shares	Name of Directors
Rufino SB. Javier	Chairman	Principal Stockholder	6 yrs. & 1 mo.	227,981	19.63%
Gene M. Sangalang	Vice-Chairman	Principal Stockholder	6 yrs. & 9 mos.	1,465	0.13%
Brigida Regina J. de Luna	Member	Principal Stockholder	10 yrs. & 5 mos.	227,979	19.63%
Noelle Riza D. Castillo	Member	Principal Stockholder	6 yrs. & 6 mos.	919	0.08%
Cecilia M. Misola	Member	Principal Stockholder	6 mos.	1,465	0.13%
Edgardo M. Molina	Independent Director	Principal Stockholder	*1 yr. & 4 mos.*	1,812	0.16%
Duane Von O. Sumo	Independent Director	Principal Stockholder	*1 yr. & 7 mos.*	1,811	0.16%
Total Shares				***463,432***	39.91%
Total Outstanding Capital Stock					*1,161,327*

MVSM BANK
(a rural bank since 1953)

f. Board qualification

Rufino SB. Javier

Age: 88
Position: Chairman
Nationality: Filipino
Qualification: Bachelor of Laws (LLB)

Gene M. Sangalang

Age: 56
Position: Vice Chairman
Nationality: Filipino
Qualification: BSC Accounting

Brigida Regina J. De Luna

Age: 51
Position: Member
Nationality: Filipino
Qualification: BS Business Economics

Cecilia M. Misola

Age: 47
Position: Member
Nationality: Filipino
Qualification: AB English/Bachelor of Laws (LLB)

Noelle Riza D. Castillo

Age: 54
Position: Member
Nationality: Filipino
Qualification: BS Economics/Bachelor of Laws (LLB)

Edgardo M. Molina

Age: 66
Position: Independent Director
Nationality: Filipino
Qualification: BSC Accounting

Von Duane O. Sumo

Age: 48
Position: Independent Director
Nationality: Filipino
Qualification: BSBA Marketing

Some of the Trainings attended by the Board of Directors:

Participant	Seminar / Training	Venue	Date
Gene M. Sangalang	Briefing on BSP Relief Measures on Loan Modifications/Restructured Loans and Capital Relief on Provisioning Requirements	Videoconference via ZOOM - RBAP	January 25, 2022
Brigida Regina J. De Luna	Greening the Banks	Videoconference via ZOOM - BSP	February 08, 2022
Brigida Regina J. De Luna	Digitization in Rural Banking Strategies for Financial Inclusion in the midst of the pandemic and beyond	Videoconference via ZOOM - BAIPHIL	March 08, 2022
Atty. Cecilia M. Misola	Basic Corporate Governance for Bank Directors & Officers	Videoconference via ZOOM - RBAP	April 26-27, 2022
Brigida Regina J. De Luna	Building Resilience in Leadership (Annual General Membership Meeting and Executive Learning Series)	Videoconference via ZOOM - BAIPHIL	April 28, 2022
Gene M. Sangalang	Walk-Through Session Operations Manual	Videoconference via ZOOM - RBAP	May 10, 2022
Brigida Regina J. De Luna	2022 Post SONA Economic Briefing -sponsored by BSP	PICC	July 26, 2022
Gene M. Sangalang	Treasury Operations & Liquidity Management	Videoconference via ZOOM - RBAP	October 24, 2022
Brigida Regina J. De Luna	Workshop On Risk Management Of Sme	Asian Development Bank (ADB)	28-29 November 2022 &1-5 December 2022, 12:30 pm to 5:00 pm (excluding Saturday and Sunday)

MVSM BANK
(a rural bank since 1953)

g. List of Board-level committees including membership and function.

(1) Audit Committee**:**

Edgardo M. Molina	Chair
Duane Von O. Sumo	Member
Noelle Riza D. Castillo	Member

Its primary purpose is to support the Board of Directors in fulfilling its responsibility to ensure that management attains organizational objectives while maintaining an effective system of internal control and risk management.

(2) Credit Committee**:**

Brigida Regina J. de Luna	Chair
Gene M. Sangalang	Member
Rufino SB Javier	Member

Its purpose is to oversee the credit and lending strategies and objectives of the Bank, including: (1) Oversee the credit risk management of the Bank, including reviewing internal credit policies and establishing portfolio limits; and (2) Review the quality and performance of the Bank's credit portfolio. The Committee shall also be responsible for any other matters delegated to it by the Board.

(3) Related Party Transaction (RPT) Committee:

Duane Von O. Sumo	Chair
Edgardo M. Molina	Member
Noelle Riza D. Castillo	Member

Its primary purpose is to support the Board of Directors in fulfilling its responsibility to ensure that all related parties are continuously identified, RPTs are monitored, and oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures**.**

h. Directors' attendance at Board and Committee meetings:

Name of Directors	Board Number of meetings		Audit Committee Number of Meeting		Credit Committee Number of Meeting	
	Attended	%	Attended	%	Attended	%
Rufino SB. Javier	13/13	100.00%			16/16	100.00%
Gene M. Sangalang	13/13	100.00%			16/16	100.00%
Brigida Regina J. de Luna	13/13	100.00%			16/16	100.00%
Ignacio C. Moneda III	1/3	0%				
Cecilia M. Misola	10/10	100.00%				
Noelle Riza D. Castillo	12/13	92.31%	12/12	100.00%		
Edgardo M. Molina	9/13	69.23%	9/12	75.00%		
Duane Von O. Sumo	13/13	100.00%	12/12	100.00%		
Total Number of Meetings Held During the year	13		12		16	

i. Changes in the Board of Directors

The deceased Board Director Atty. Ignacio C. Moneda III was replaced by Atty. Cecilia M. Misola, approved by the Board last March 8, 2022 and confirmed by BSP last June 22, 2022.

j. List of executive officers/senior management

Name of Executive Officer/ Senior Mangement		Position	Qualification/ Experience in MVSM	Age	Nationality
1.	GENE M. SANGALANG	VP for Operns.	BSC Accounting	56	Filipino
2.	BRIGIDA REGINA J. DE LUNA	President	BS Business Economics	51	Filipino
3.	MARIA PATRICIA J. UY	Corp. Planning/ Marketing Head	BA European Languages	45	Filipino
4.	MARIA MILAGROS L. JAVIER	HR Head	BS Economics	44	Filipino
5.	ESTRELLA L. VILLENAS	Chief Compliance Officer	BBA Marketing	49	Filipino
6.	ANGELINA RAIDA A. SALAMAT	Treasurer/Cashier	BSC Banking and Finance	44	Filipino
7.	LORENA S. TOLENTINO	Remedial Accts. Manager	BA Accountancy	59	Filipino
8.	JIMMY N. ARELLANO	Credit Risk Officer	BS Computer Science	49	Filipino
9.	JOEL V. ABAD	Senior Internal Auditor	BSBA Accounting	56	Filipino
10.	BERNADETTE DB DIONISIO	Corporate Bookkeeper	BSBA Accounting	41	Filipino

k. Performance Assessment Program

The Performance Evaluation Assessment includes the following:

The BOD, Audcom, Unit Heads and the BMs must perform regularly the scheduled assessments in order to monitor the effectiveness of the all employees, Board and Board Committees:

a. Self-Assessment/Evaluation (see attached see attached Self-Assessment/Evaluation Forms)

   1) The final performance ratings shall be computed using average method for the Board of Directors as a body.

   2) The final performance ratings shall be computed using the number of questions with proportionate points or percentage /weights e.g., questions with YES and NO answers. Sum up the results of questions and then align the results with the Table of Ratings. The said computation of ratings is applicable for Self-Assessment of Board of Directors; Self-Evaluation of Audit Committee and Self Evaluation of Credit Committee.

b. Performance Evaluation Report - indicate the competencies/qualitative criteria used in evaluating performance (see attached Performance Evaluation Report Form).

   The HR shall identify define the rater of each employee per position. For employees with multiple ratings like CCO, CRO, SIA, etc. the final performance ratings shall be computed using average method.

c. Performance/Merit System - given 100 merit points within a calendar year every errors/findings/misreporting/delayed submission will be deducted to their merit points. The total demerit points will be tallied and totaled and will also serve as a basis for the increase and bonus.

   Strategic Plan for the year – annual basis based on the achievement of branch targets & developments.

Schedule of Assessment

Kind of Assessment	*Frequency of Assessment*
Self-Assessment/Evaluation – Board of Directors (BOD); BOD as a body; Audcom as a body; and Crecom as a body	Annually, before Annual Election of Board of Directors and Board Committee members (scheduled every 2nd Tuesday of March)
Performance Evaluation Report	For all Regular Employees - annually, every July after the reference cut-off month ending 30th of June (inclusive date from July 1 of the previous year up to June 30 of the current year); and For Newly Hired Employees – twice before regularization.
Performance/Merit System	Annually, usually done before Strategic Plan on/or before 1st week of December, awarding of the "BEST" employee in each category (BM, Cashier, Teller, Loan Processor, Bookkeeper, Messenger & Branch) will be done on the day of the Christmas Party.
Evaluation of the current Strat Plan	Semi-Annual, usually done after June and December

I. Orientation and Education Program

Training and Development

Training and development activities are conducted in order to improve performance of each employee. Various programs are made for all employees. They include the following:

- Training within the Bank (In-House)

- Training outside the Bank
- Training program abroad
    - Orientation and Job Induction of new hires

Regular refresher courses will be conducted for the following: loans, tellering/ cashiering, bookkeeping, AMLA, Security. Participants would depend on the seminar to be conducted. These in-house training will cover topics recommended by audit, operations and compliance.

Depending on the results of the Talent Review and in cases of promotion/ change of job designation, employees may be nominated to attend available seminars. Below are some seminars conducted by RBAP Foundation:

1) Delinquency and Fraud Management in Banks
2) Internal Credit Risk Rating System Workshop
3) Credit Analysis & Loan Packaging Seminar
4) Risk Management Basic Course
5) Cash Flow Statement—Understanding & Analyzing
6) Compliance Officer's Development Training
7) Signature Verification Bank Fraud and Forgery Detection
8) AMLA Seminar
9) Comprehensive Property Appraisal Seminar
10) Business Continuity Management Program

m. Retirement and Succession Policy

1. RETIREMENT

1.1. Compulsory Retirement shall be effected on the employees' birth month at the age of 65.

1.2. Optional Requirement Any employee with at least 20 years of service or upon reaching the age of 60 may retire at his option of the Bank and shall be entitled to retirement benefits.

1.3. Retirement Benefits Computation*:*

a. Any employee with Officership position (Manager, Cashier, Loan Manager, General Bookkeeper and Appraiser) and has rendered at least fifteen (15) years of service with the Bank will receive One Month's Pay for every year of service rendered upon retirement.

b. Any retiring employee with at least twenty (20) years of service shall be entitled to receive One Month's Pay for every year of service rendered.

2. SUCCESSION PLANNING GUIDELINES

Succession Planning Guidelines have been prepared for all regular employees of MVSM Bank, Inc. pertinent details of each employee have been made in order to come up with a guide that can help management. This will help management in preparing a career path for each individual.

In order to make a career plan for each employee, various factors have been considered. These factors include residence, age, educational background, civil status, tenure, trainings attended and the evaluation of each by his/her supervisor.

In the development plan, Management has determined the possible changes for growth / improvement for each employee. It also identifies the various needs such as trainings and future plans for each.

A Succession Planning Chart has also been prepared. Should there be any absences (planned or unplanned), resignations, retirements, etc., the chart will serve as a guide for all in order that banking operations run smoothly despite changes in staffing.

n. Remuneration & Compensation policy

1. Forms of Remuneration

   The components of total remuneration are:

   a. Fixed remuneration
      The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, seniority, education, responsibility, job complexity, local market conditions, etc. Fixed salary is mainly payable in cash.

   b. Variable remuneration

      The majority of employees have a variable component to their remuneration in addition to their fixed remuneration. There is a proportionate ratio between fixed remuneration and variable remuneration. The relation between fixed and variable remuneration is of reasonable proportion. Employees should not have to rely on their variable remuneration. The variable portion is clearly connected to the work and performance of the individual, the performance of his/her department and the overall performance of the Bank. The goals are based on factors that support the Bank's long-term strategy. The variable component varies across the Bank's business areas and management levels.

      The performance-based remuneration motivates and rewards high performers who significantly contribute to sustainable results, perform according to set targets/expectations for the individual in question, strengthen long-term customer relations, and generate income and shareholder value.

      The Board of Directors has determined a maximum percentage of performance-based remuneration relative to the fixed remuneration in order to ensure an appropriate balance between fixed and variable pay. This percentage varies according to the type of position held by the employee and the business unit in which the employee is employed and local requirements. The maximum limit on variable remuneration remains at 200 per cent of fixed salary.

c. Other Remuneration:

1. Healthcard/Health Coverage Insurance
2. Retirement Benefits (please refer to BIR approved Retirement Plan)
3. SSS/Philhealth and Pag-ibig Contribution
4. Financial Assistance

2. Compensation for Directors and Officers

a) Directors

The directors shall not receive any compensation, as such directors, except for reasonable per diems. Any compensation may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting, in no case shall the total yearly remuneration of directors, serving as such directors exceed ten (10%) of the net income before tax of the Bank during the preceding year.

The non-executive Chairman shall be entitled to reimbursement of expenses for meetings, official visits and participation in various forums and other expenses and allowances for attending to his duties as Chairman on behalf of the Bank. The Chairman as assignee of the Bank Golf Club & other Country Club shares has the privilege to use the facility, venue to conduct meetings with potential clients, business partners, and committee meetings.

The Stockholders' Meeting decides the value of the fees for the Board of Directors.

The remuneration policy for Executive Directors is proposed to the Board of Directors by the Remuneration & Compensation Committee. The Board of Directors then approves any type of supplementary remuneration.

The President proposes policies for the Directors to the Remuneration & Compensation Committee, which expresses its opinion and presents the policies to the Board of Directors.

This process is supported, as far as the technical aspects are concerned, by the HR Head, who takes care of the implementation of these policies.

President Remuneration is composed of the fixed, variable and other remuneration based on the degree of achievement of the targets set in the previous year.

b) Senior Management

Remuneration & Compensation of the senior management and the most highly compensated management officers of the bank will be deliberated by the Compensation Committee. After the Compensation Committee has deliberated and reported, specific remunerations for Directors and Senior Management are deliberated at the Board of Directors meeting, and specific remunerations are discussed in the Board meeting, within the limits of remunerations approved at the Annual Stockholders Meeting, and with the amount of remunerations calculated based on rules and regulations established by the Bank.

Employees in risk control functions (i.e., internal audit, compliance, and risk management functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

c) Officers

The Committee deliberates and reports on matters pertaining to remuneration for Officers such as remuneration policy, plan, calculation methods, and specific remuneration content of individual Officers.

o. Policies and procedures on related party transactions(RPT)

i. Policies and procedures for managing related part transactions

POLICY:

Bank's directors, officers, stockholders and their related interest are not prohibited to borrow from their own Bank, provided that the terms of the loan are not less favorable to Bank than those offered to others and loans so granted to them shall as much as possible be fully covered by collaterals.

1. Definition of Related Parties

   The Bank will review the submitted BIOGRAPHICAL DATA of all DOSRI which will be used as the basis for the Inventory of related parties. A review of this inventory will be done annually after the Annual Stockholder's meeting.

2. Coverage of RPT Policy

   The coverage of related party transactions shall go beyond just credit risk but will include among others:

   a. On-and-off balance sheet credit

   b. Consulting, professional, agency and other service arrangements/contracts

   c. Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)

   d. Construction arrangements/contracts

   e. Lease arrangements/contracts

   f. Borrowings, commitments, fund transfers and guarantees

   g. Sale, purchase or supply of goods or materials and

   h. Establishment of joint venture entities

PROCEDURES:

a. Transactions with DOSRI, regardless of amount shall be reviewed and endorsed to the RPT Committee and Board for approval. The approval shall be manifested in a resolution passed by the board of directors during a meeting properly minuted and made of record.

b. The Compliance Officer shall prepare a monthly report of all related party transactions approval.

   The report shall contain the following information:

   - Name of the director or officer concerned and his involvement as regards the credit accommodation, such as principal, endorser, spouse of borrower, etc.;
   - Nature of the loan or other credit accommodation, purpose, amount, credit basis for such loan or other credit accommodation, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms of the loan or other credit accommodation;
   - Names of the committee members/directors who participated in the deliberations of the meeting; and
   - Names in print and signatures of the committee members/directors approving the resolution: Provided, that in instances where a committee member/directors who participated in the meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

c. If a related party transaction would be ongoing, the RPT Committee/Board of Directors shall periodically review and assess ongoing relationships with related parties to determine and ensure compliance with all the regulatory requirements.

d. No director may engage in any Board or Committee discussion or approval of any related party transaction. However, such director must provide to the Board or Committee all material information reasonably requested concerning the transaction.

ii. Conglomerate structure

n/a

iii. Details of material RPTs as defined under Subsec. X136 of the MORB, including the nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments:

Material Related Party Transactions

For the Quarter Ended December 31, 2022

Parent Bank/QB & Subsidiary/Affiliates	Related Counterparty	Relationship Between the Parties	Transaction Date	Type of Transaction	Amount Contract Price	Terms	Rationale for Entering into Transaction
A. Bank/QB							
a. Subsidiaries and Affiliates							
b. DOSRI	RSJMLJ Corporation	Stockholders/Director	01/01/2022	Lease Contract*	34,133.19	1 yr	Building Rental- Head Office
	RSJMLJ Corporation	Stockholders/Director	01/01/2022	Lease Contract*	37,653.27	1 yr	Building Rental- Tanay
	Jali Corp.	Stockholders/Director	01/01/2022	Lease Contract*	37,653.27	1 yr	Building Rental- Concepcion
	RSJMLJ Corporation	Stockholders/Director	01/06/2022	Lease Contract*	119,534.21	1 yr	Building Rental- San Mateo
	RSJMLJ Corporation	Stockholders/Director	15/03/2022	Lease Contract*	63,157.89	1 yr	Building Rental- BLU
	Atty. Cecilia M. Misola	Director	02/03/2022	Consulting/Retainer Agreement**	30,000.00 plus 25,000.00 allow	2 yrs	Legal Consultancy
	Atty. Cecilia M. Misola	Director		Legal Related Expenses	P3,000-Manila/ 5,000-Province	Per Appearance	
	Atty. Noelle Riza Castillo	Stockholders/Director		Legal Related Expenses	P3,000-Manila/ 5,000-Province	Per Appearance	
	Nympha M. Buenaventura	Stockholder	15/03/2017	Borrowings	89,587.63	15 yrs	Loan Accommodation
	Nympha M. Buenaventura	Stockholder	29/12/2021	Borrowings	11,762.66	1-1/2 yrs	Loan Accommodation
	Nympha M. Buenaventura	Stockholder	14/03/2021	Borrowings	1,692.89	1-1/2 yrs	Loan Accommodation
	Nympha M. Buenaventura	Stockholder	15/06/2022	Borrowings	143,291.67	1 yr	Loan Accommodation
	Jali Corp.	Stockholders/Director	19/10/2020	Borrowings	318,081.81	5 yrs	Loan Accommodation
	Jali Corp.	Stockholders/Director	15/03/2021	Borrowings	391,941.42	5 yrs	Loan Accommodation
	Noelle Riza D. Castillo	Director	13/05/2022	Borrowings	42,425.48	1 yr	Loan Accommodation
c. Others							
B. Subsidiary 1							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							

C. Subsidiary 2							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
D. Affiliate 1							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
E. Affiliate 2							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							

Please indicate in the last column (rationale for entering into the transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

* inclusive of w/tax

** exclusive of w/tax

Certified Correct:

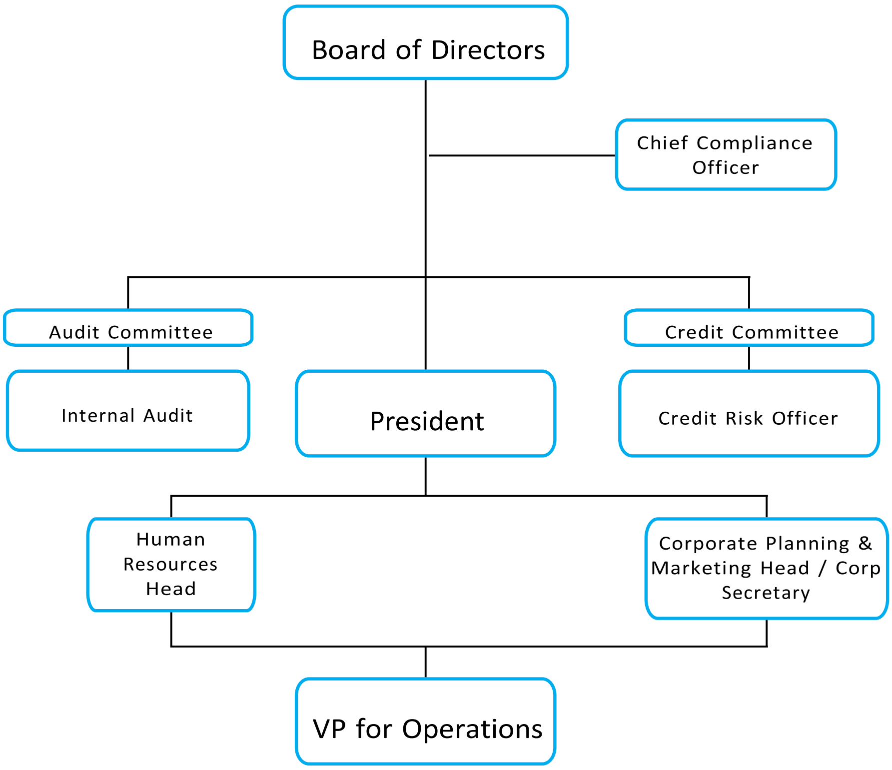
GENE M. SANGALANG

Vice President for Operations

p. Self-Assessment Function

i. Structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process

Plantilla of Organization as of 31 December 2022:



d) Internal Auditor – The internal auditor shall have full, free and unrestricted access to all company activities, records, property and personnel. He shall report directly to the Audit Committee. His duties and responsibilities shall include the following:

1) Performs continuous program of verification and conduct his examination in such a way as to ensure management of the general reliability and validity of all reports;
2) Recommends the establishment of appropriate internal controls;
3) Supervises and maintains the bank's system of internal control and ascertains that it is adequate and functioning properly;

4) Recommends appropriate measures to ensure that the established policies, procedures and controls are followed; e) Perform such other functions as may be assigned by the Board of Directors in connection with examination, evaluation and appraisal of the bank's operations. The internal auditor has no authority or responsibility over the activities he audits, and his main purpose is to assist the members of the organization in the effective discharge of their responsibilities

e) Compliance Officer –the Chief Compliance Officer to identify problems as quickly & as efficiently as possible & to report the findings to the appropriate levels of Management. His duties and responsibilities shall include the following:
   1) Responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.
   2) Oversees & implements the compliance system and monitors the performance of the Compliance Program and relates activities on a continuing basis, taking appropriate steps to improve its effectiveness;
   3) Build-up a compilation of all banking laws and relevant rules and regulations issued by the Bangko Sentral ng Pilipinas (BSP) and other regulatory/supervisory bodies such as the Philippine Deposit Insurance Corporation (PDIC), the Social Security System (SSS), the Department of Labor and Employment (DOLE), Bureau of Internal Revenue (BIR), Home Development Mutual Fund (HDMF), Philippine Health Insurance (PHIC) Corporation and the Local Governments and to implement such laws;
   4) Establishes & maintains a constructive working relationship with all the regulatory agencies for the prime purpose of seeking clarifications on specific provisions of laws, rules and regulations and/or discussing compliance findings with the regulatory authorities;
   5) Maintain his membership in good standing with the Association of Compliance Officers for Rural Banks to expose himself to various compliance "best practices";

6) `Maintain a clear and open communication process within the bank to educate and address compliance matters or conduct regular meeting and seminars/workshops among the officers/staff on the interpretation, implementation guidelines and risk implications of each law, rule or regulation in the operations of the bank;
7) Monitor & assess the compliance program & recommend to the Board of Directors any warranted revision or changes in the program; and
8) Seek the opinion of the Legal Counsel on questions of law & be guided accordingly by the opinion of the Legal Counsel.
9) In compliance with the R. A. No. 10173 also known as Data Privacy Act of 2012, the CCO was designated as the Data Protection Officer (DPO) of the bank to ensure compliance with applicable laws and regulations for the protection of data privacy and security.

He shall directly access the BOD in relation to compliance matters.

ii. Process adopted by the board to ensure effectiveness and adequacy of the internal control system

A. Obtaining an Understanding of the Entity's Internal Control Structure

1. Understanding the Control Environment
2. Understanding Control Procedures
3. Understanding the Accounting and Internal Control System
4. Documentation of Understanding
    a. Internal Control Questionnaire
    b. Use of Flowcharts
    c. Narrative Description
    d. Internal Control Checklist
    e. Decision Tables

B. Assessing the preliminary Level of Control Risk

This is the process where the auditor evaluates the effectiveness of the bank's internal control policies and procedures in preventing or detecting material misstatements in the FS assertions

Assertion		Related Control Activities
A	Existence / Occurrence	Procedures that require documentation, approvals, authorization, verification and reconciliations Ex. Cash disbursement should be supported by complete documentation
B	Completeness	Procedures that ensure that all transactions that occur are recorded such as accounting for numerical sequence of documents Ex. Receipt of cash should be supported by official receipts in a numerical sequence
C	Rights and Obligations	Procedures that ensure that the entity has a right to assets or an obligation to pay arising from the transaction Ex. A sale to a customer should be supported by a sales invoice and acknowledged delivery receipt
D	Valuation and Measurement	Procedures that ensure that a proper price is charged and that mathematical accuracy are present in recording and in developing the accounting records and the financial statements Ex. A sale to employee traces the price used on an invoice to price list in the effect at the time of the sale.
E	Presentation and Disclosure	Procedures that indicate that a review has been made to ascertain that a transaction has been recorded in the proper account and that FS has been reviewed by a competent personnel. Ex. The accountant reviews the correctness of journal entries made by an accounting clerk.

C. Obtaining Evidential Matter to Support the Assessed Level of Control Risk

The auditor obtains evidential matter to enable him to determine the proper level of control risk by performing test of controls or compliance test on selected policies and procedures.

Compliance procedures are designed to obtain a reasonable assurance that those internal controls on which tests requiring inspection of documents supporting transaction to gain evidence that controls have operated properly. Inquiries about and observation of controls which leave no audit trail should be made.

1. Evaluating the results of the Evidential Matter

   Based on the result of the test control, the auditor should evaluate whether the internal controls are designed and operating as contemplated in the preliminary assessment of control risk. The evaluation of deviations may result in the auditor concluding that the assessed level of control risk needs to be revised. Generally, the lower the assessed level of control risk, the greater the assurance the evidential matter must provide that the internal control structure policies and procedures relevant to an assertion are designed and operating effectively.

2. Determining the Necessary Level of Detection Risk

   The auditor uses the assessed level of control risk (together with the assessed level of inherent risk) to determine the acceptable level of detection risk for financial statement assertions. Auditing procedures designed to detect such misstatement are referred to as substantive tests. The substantive test that the auditor performs consists of test of details of transactions and balances, and analytical procedures.

   The primary reason for studying and evaluating Internal control is to provide a basis for relying upon the system and for determining the extent of year-end substantive tests to be performed. There is an inverse relationship between the effectiveness of internal control and the extent of detailed audit procedures more effective systems require less detailed testing. Strengths and weaknesses identified during the evaluation of internal accounting control and test of compliance will affect the nature, timing, and extent of audit procedures

q. Dividend Policy

The Bank has adopted the following general policy on the declaration of dividends:

"Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank."

Dividends allow shareholders to enjoy the fruits of a profitable business. A dividend is a payment to the shareholders of the Bank as a return on the shareholder's investment.

Declaration of dividends are approved by the Board of Directors of the Bank and does not need prior approval from the BSP but must be made in accordance to regulations set by the BSP.

The amount of total dividends declared last July 12, 2022 amounting to Php6,806,475.00 and last December 6, 2022 amounting to Php5,445,180.00.

r. Corporate Social Responsibility Initiatives

MVSM Bank will embark on sustainability projects to help the environment. Talks with the Marikina shoe industry and Haribon Foundation are being done in order to help with their community projects.

s. Consumer Protection Practices

i. Role and responsibility of the Board and senior management for the development of consumer protection strategy and establishment of an effective oversight over the bank's consumer protection programs

Based on existing financial customer protection standard risks as identified and profiled by the Bank, identified risks were classified as follows:

The effects of lack of oversight supervision by BOD and is "rare" to happen since they are very serious in addressing customer protection issues by coming out with policies and procedures in developing the Customer Assistance Management System, thereby, impact of the risk to the Bank and the customer would be low.

ROLES & RESPONSIBILITIES OF THE BOARD & SENIOR MANAGEMENT:

1) BOARD OF DIRECTORS

The Board shall be primarily responsible for approving and overseeing the implementation of the bank's CPRMS.

The Roles of the Board shall include the following:

a. Approve the CPRMS and Consumer Assistance Mechanism (CAM) that takes into consideration the Bank's business model, market, product lines, and relationships with third parties that may give rise to consumer protection risks;
b. Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers;
c. Ensure that adequate information and actions taken are reported on a regular basis in terms of measurement of consumer protection related risks, reports from the CAM, as well as other material consumer related developments that will impact the Bank;
d. Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;
e. Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and

f. Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the bank's business model and/or operating environment.

2) RESPONSIBILITIES OF THE SENIOR MANAGEMENT

The Senior Management shall be responsible for proper implementation of the Consumer protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.

The Senior Management shall be responsible for the following:

a. Ensure that approved CPRMS and CAM policies and procedures are clearly documented, properly understood and appropriately implemented across all levels and business units.
b. Ensure an effective monitoring and management information system to regularly measure, aggregate, and analyze consumer related issues to determine the level of consumer protection risk. An appropriate and clear reporting and escalation mechanism should also be integrated in the risk governance framework.
c. Ensure that adequate systems and controls are in place to promptly identify issues that affect the consumer across all phases of the relationship with the consumer;
d. Ascertain that weaknesses in the consumer protection practices or consumer protection emerging risks are addressed and corrective actions are taken in a timely manner; and
e. Ensure observance of expectations and requirements prescribed under relevant regulations on compliance and internal audit.

ii. The consumer protection risk management system of the bank, the means by which a bank identify, measure, monitor, and control consumer protection risks inherent in its operations

The Bank shall monitor risks and the effectiveness of established controls through periodic measurement of Consumer Protection activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. The risk monitoring and assessment reports shall be submitted on time, accurate, and complete to the Management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and Consumer Protection operations are performing within established issues. Any deviation noted in the process should be evaluated and the management shall initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the Bank's risk profile and should cover, among others, the following concerns, mechanism, response and monitoring:

In this view, the Bank has established two (2) approaches in measuring the effects of failure to follow the required protection standards or principles, namely:

a. The Bank classifies its risk according to probability or the likelihood of occurrence of the risk:
    1) RARE – the happening of the customer protection risk is not expected to come soon;
    2) LIKELY – the happening of the customer protection risk is not expected at the moment;
    3) CERTAINLY – the happening of customer protection risk is definite or imminent.
b. The Bank classifies the level of customer protection risks accordingly:
    1) LOW – the impact of customer protection risk to the Bank is nil or minimal;
    2) MEDIUM – the impact of customer protection risk to the Bank is moderate or within the tolerable level of the Bank.
    3) HIGH – the impact of customer protection risk to the Bank is above what the Bank's tolerable limit and has adverse effects on the reputation.

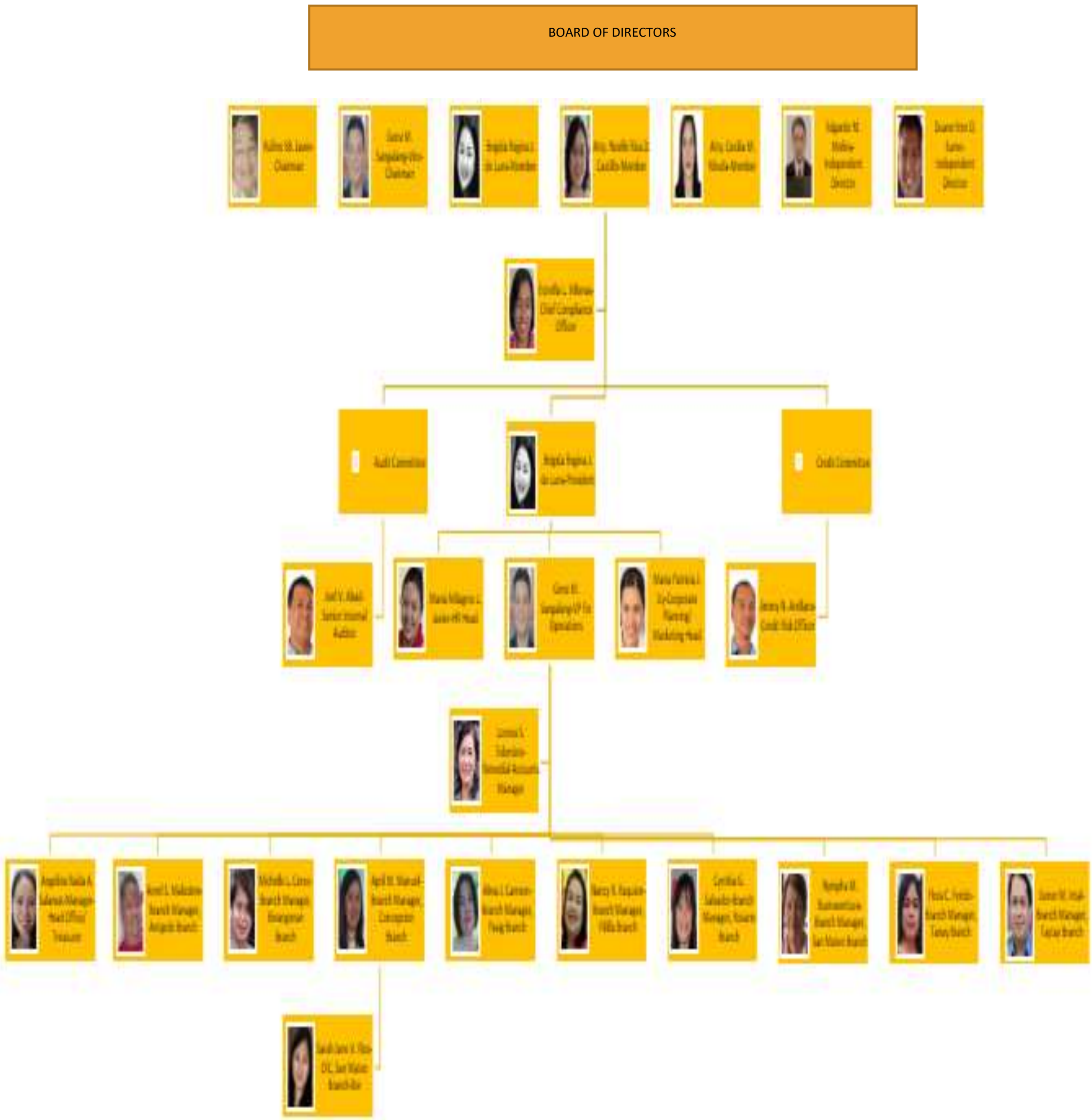
iii. The consumer assistance management system of the bank which shall include the consumer assistance policies and procedures as well as the corporate structure for handling complaints

The Bank goal is to provide consumer with the highest quality of service possible. Hereunder are the procedures that will be followed when the bank receives a complaint or query:

1) Complaints/queries are accepted by staff and endorsed to the branch managers;
2) Manager base on the query or complaint and acts on the matter immediately. If it cannot be resolved or answered immediately, the customer is asked to return at least two days after;
3) When complaint is not immediately resolved at branch level, the Audit Team (depending on complaint) conducts its own investigation about the complaint;
4) Report is prepared by Audit Team to Operations. The investigation and report preparation to take at least three days;
5) When complaint remains unresolved, the VP for Operation goes to the branch and final recommendation is made. Customers are not discouraged to inform BSP about their complaint.
6) Depending on the response of the BSP, the bank may again do its investigation or accept the matter to be closed.
7) Record/s of complaints resolved at branch level kept at the branch and communications coming from BSP are filed with the Compliance Unit.

6. Corporate Information

a. Organizational structure, including the name and position of key officers



b. **List of major stockholders of the bank, including nationality, percentage of stockholdings and voting status**

AS OF DECEMBER 31, 2022

Name of Stockholder / Subscriber Address	Nationality	No. of Shares	Amount	Ratio
COMMON SHARES - VOTING SHARES				
JAVIER, RUFINO SB	Filipino	227,981.00	22,798,100.00	19.63%
DE LUNA, BRIGIDA REGINA J.	Filipino	227,979.00	22,797,900.00	19.63%
UY, MA. PATRICIA J.	Filipino	227,979.00	22,797,900.00	19.63%
JAVIER, MA. MILAGROS L.	Filipino	227,979.00	22,797,900.00	19.63%
DE LUNA, EMMANUEL DEOGRACIAS H.	Filipino	114,492.00	11,449,200.00	9.86%
UY, ARCHIE LAWRENCE K.	Filipino	114,492.00	11,449,200.00	9.86%

c. **List and description of products and services offered**

1. **Deposit**

a. Demand Deposit

A non-interest-bearing account wherein deposit transactions are made with a use of checkbooklet.

b. Regular Savings Deposit

An interest-bearing savings account wherein deposit transactions are made over-the-counter with a use of passbook.

c. Mega/*Time Deposit*

An interest bearing deposit account wherein funds of a specific amount are given pre-determined competitive rates for a fixed term.

2. Loans

a. Business Loan

for business expansion, additional capital for business, start-up, etc.

b. Housing Loan

for home construction/ renovations, purchase of house & lot, etc.

c. Personal Consumption Loans

for travel expenses, tuition fees and other personal needs.

d. SSS Pensioner Loans for personal needs of SSS Pensioners.

3. **Money Remittance thru Western Union, i2i platform**

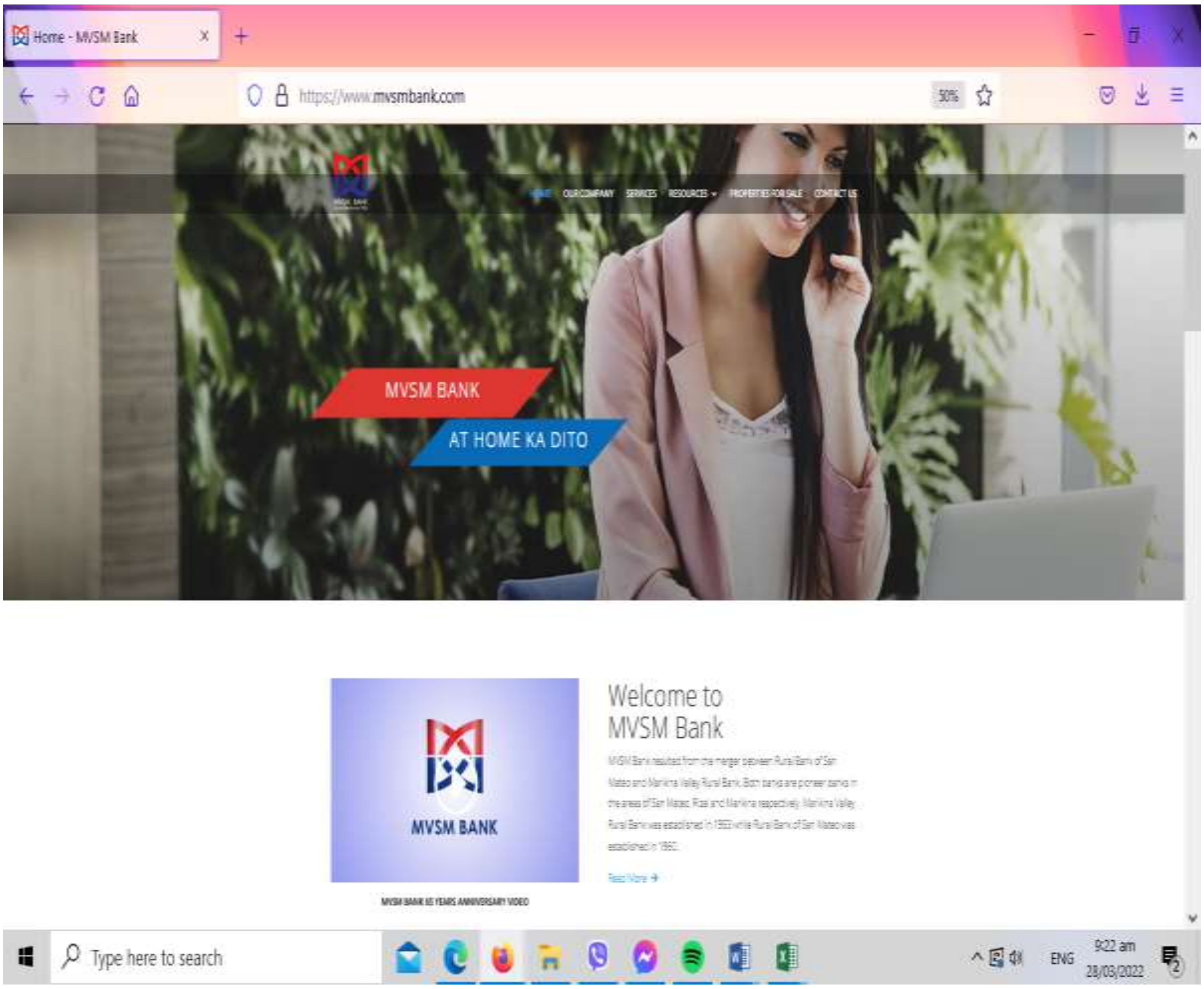
4. **Bills payment**

Thru BAYAD CENTER Billers include the following merchants: Meralco, PLDT, Smart, Globe, PLDT, Skycable, Destiny Cable, Digitel, Manila Water, Maynilad, Manulife, Maxicare Healthcare Corporation, PAG-IBIG Fund, SSS, Grepalife, SunCelluar, Sunlife of Canada, World Vision Dev't. Foundation, etc.

5. **SSS Payment Agent**

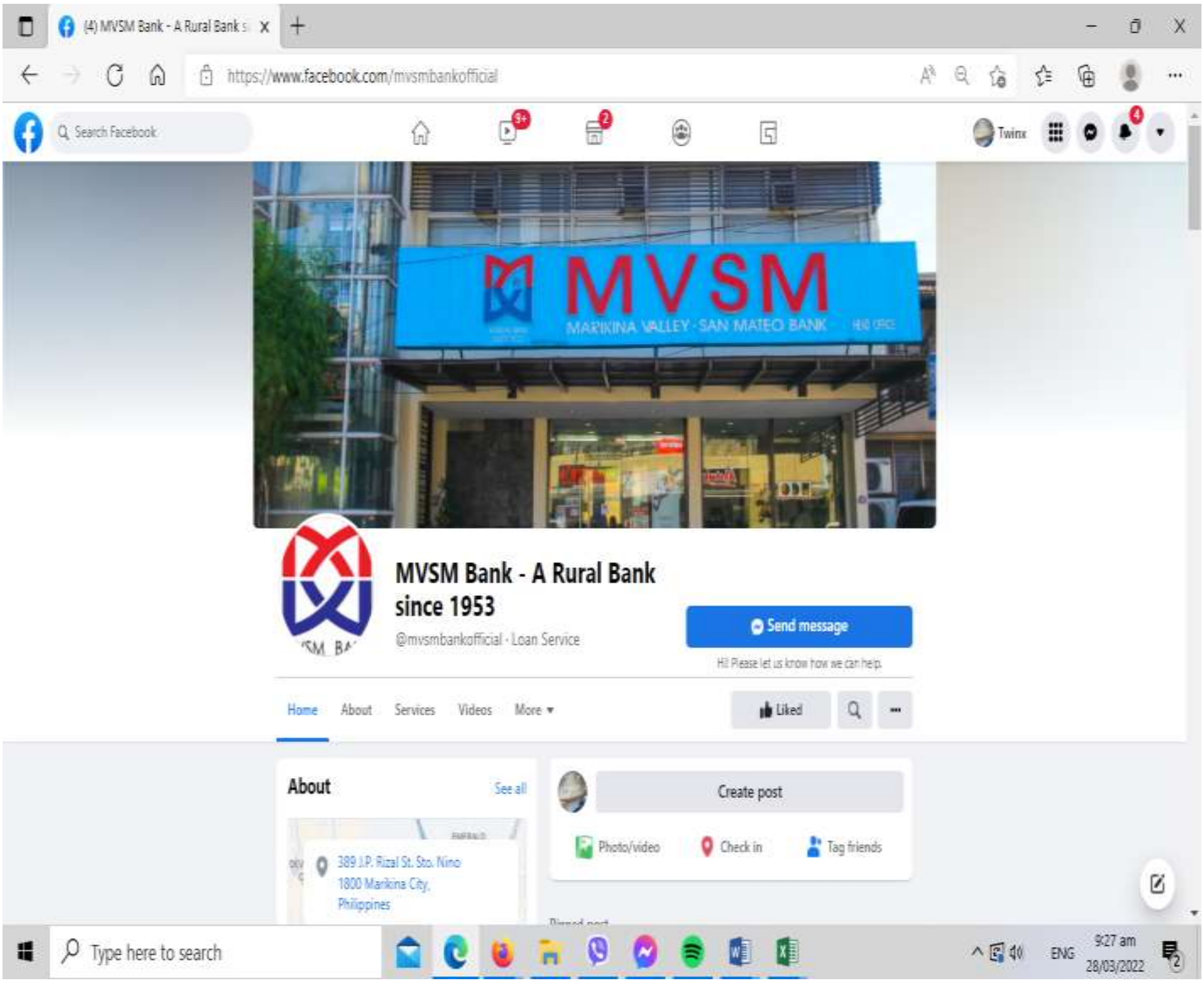
d. Bank website

www.mvsmbank.com



Facebook Account:

https://www.facebook.com/mvsmbankofficial



e. List of banking units

Branch	Address	Contact Person	Designation	Telephone #	Fax #	E-mail
Head Office	389 JP Rizal St Sto Niño Marikina City	Angelina Raida A. Salamat	Manager	8681-0075 / 6984	7501-8526	duviesalamat@mvsmbank.com
Antipolo	Makaya Bldg. Circumferencial San Roque Antipolo City	Sylvia Legaspi	Branch Manager	8696-0897		sylvialegaspi@mvsmbank.com
Binangonan	Sta. Ursula St Binangonan Rizal	Michelle L. Cervo	Branch Manager	8652-2780		michellecervo@mvsmbank.com
Concepcion	713 Jp Rizal Cor. Farmers Ave. Concepcion I Marikina City	April M. Manuel	Branch Manager	8645-5143	7369-6544	aprilmanuel@mvsmbank.com
San Mateo-Branch-lite	#76 Gen. Luna St., Ampid 1, San Mateo, Rizal	Sarah Jane V. Rios	Officer-in-Charge	8713-3531		sarahjanerios@mvsmbank.com
Pasig Mkt	Market Ave. Ninoy Aquino Park Pasig Public Market Pasig City	Arnel S. Malicdem	Branch Manager	8642-7760	8642-7056	arnelmalicdem@mvsmbank.com
Pasig Branch-lite	Lot 8B 37 C. Raymundo Ave., Caniogan, Pasig City	Diane C. Somido	OIC	8723-6884		dianemaesomido@mvsmbank.com
Pililia	Manila East Road	Nancy R. Raquion	Branch Manager	8654-4441		nancyraquion@mvsmbank.com

	Bagumbayan Pililia Rizal					
Rosario	Ortigas Ave. Ext. Rosario Pasig City	Cynthia Gersalina	Branch Manager	8656-1174		cynthiagersalina@mvsmbank.com
San Mateo	97 Gen. Luna St. Guitnang Bayan San Mateo	Nympha M. Buenaventura	Branch Manager	8948-0675	8470-3528	chiquibuenaventura@mvsmbank.com
Tanay	Ft Katapusan St. Plaza Aldea Tanay Rizal	Flora C. Ferido	Branch Manager	8654-5312		flora.ferido@mvsmbank.com
Taytay	341 Rizal Ave. San Juan Taytay Rizal	Gener Intal	Branch Manager	8658-7139		Gener.intal@mvsmbank.com

MVSM BANK INC. Head office & its branches

HEAD OFFICE

ANTIPOLO BRANCH

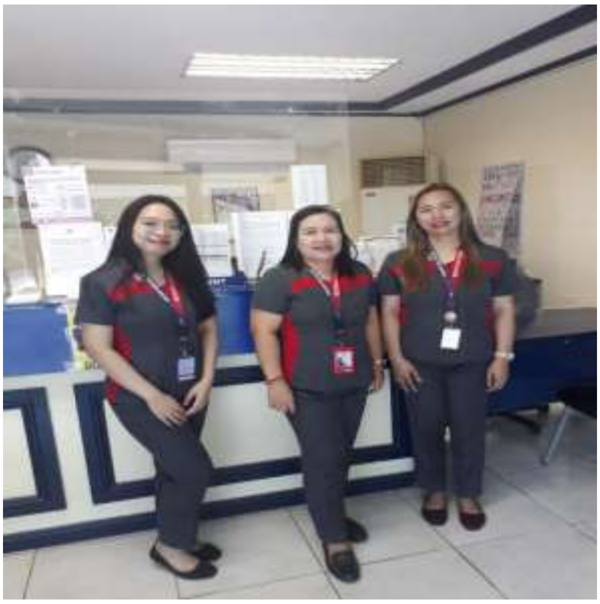
BINANGONAN BRANCH

CONCEPCION BRANCH

MVSM BANK
(a rural bank since 1953)

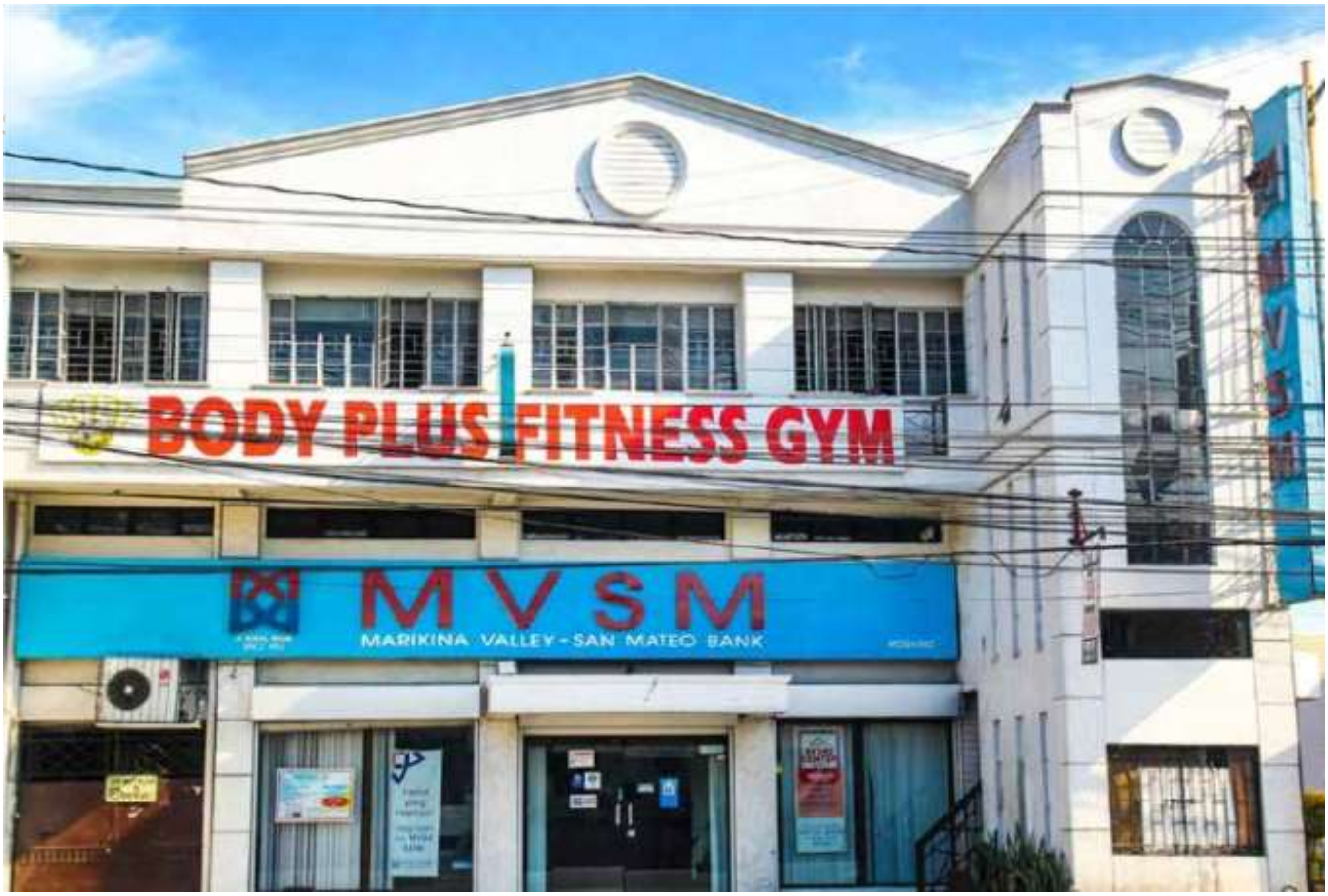
SAN MATEO BRANCH-LITE UNIT

PASIG BRANCH



PILILLA BRANCH

ROSARIO BRANCH



SAN MATEO BRANCH

TANAY BRANCH

TAYTAY BRANCH

1. Audited Financial Statements (AFS) with Auditor's Opinion

The AFS for the calendar or fiscal year including the opinion of the external auditor of the bank should be presented in full in the Annual Report as attached.

a. Summary of financial performance of the business segment for the year; Contribution of business segment to the total revenue of the bank during the year; Significant developments during the year including major activities (see attached AFS 2022 by Punongbayan & Araullo-P &A)

b. Future plans/targets/objectives

1) Future Plans

For 2023 we are targeting to grow by 5-10%, slightly higher than the GDP forecast of the Philippines. This is an attainable target based on the planning and discussions.

Several activities are planned for 2023, the celebration of 70th anniversary this June 18, 2023, website improvement, loan and deposit promos, improvement of bank appearance, and to continue promoting Bank products and services thru leafleting, infomercials, community sponsorships and other marketing collaterals.

Top on the list of plans for 2023 is the upgrading of the Core Banking System from MBWin to RBSoftech and upgrade of the existing FB Page (rescinded the service of Bank-Genie).

MVSM BANK (a rural bank since 1953)

Continuous review of manuals and validation of the Bank's systems and policies will be done all throughout 2023.

Additional Employee Benefits is currently being reviewed (salary increase Employees, etc.)

Plan to open the third (3rd) branch lite units (BLUs) located in Teresa, Rizal. And possibly an application for a branch lite license in Teresa, Rizal. This is in keeping with the government's thrust of expanded Financial Inclusion.

The Bank will approve and implement programs on Sustainability Financing in 2023 as well.

The financial performance for 2022 vis-à-vis the target is as follows:

	Deposit Liabilities	Loans*	Income
Actual Balance for 12/31/21	1,169,564,120	561,378,665	17,826,571
Target from January to Dec. 2022	65,013,227	43,123,717	18,207,379
Sub-total	1,234,577,347	604,502,382	18,207,379
Actual Bal. as of Dec. 31, 2022	1,264,667,881	593,342,422	17,896,887
Excess/(Deficiency)	**30,090,534**	**-11,159,960**	**-310,492**

2) Target & Objectives for the next five (5) year

Particulars	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Deposits	1,327,901,274.83	1,394,296,338.57	1,464,011,155.50	1,537,211,713.28	1,614,072,298.94	1,694,775,913.89
Loans	652,676,664.63	717,944,331.09	818,456,537.44	982,147,844.93	1,178,577,413.92	1,414,292,896.70
Income	20,567,732.38	22,007,473.65	23,547,996.81	25,667,316.52	27,977,375.00	30,495,338.75

II. COMPLIANCE WITH APPENDIX 63C OF THE MORBDISCLOSURES IN THE ANNUAL REPORTS AND PUBLISHED STATEMENT OF CONDITION

A. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

MVSM BANK (A RURAL BANK SINCE 1953) INC.

Name of Bank

COMPUTATION OF THE RISK-BASED CAPITAL ADEQUACY RATIO COVERING COMBINED CREDIT MARKET AND OPERATIONAL RISKS

SIMPLIFIED SOLO BASIS

As of December 31, 2022

CONTROL PROOFLIST

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

Item	Nature of Item	Account Code	Amount	
A.	**Calculation of Qualifying Capital**			
A.1	Net Tier 1 Capital	395000000000710000		130,833,110.98
A.2	Net Tier 2 Capital	395000000000720000		37,496,136.79
A.3	Total Qualifying Capital *[Sum of A.1 and A.2]*	395000000000700000		168,129,247.77
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets *[B.1(d) minus B.1(h)]*	195031000000000000		950,932,139.65
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	950,932,139.65	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000	0.00	
(d)	Total Credit Risk Weighted Assets *[Sum of B.1(a), B.1(b) and B.1(c)]*	100000000000810000	950,932,139.65	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) *[Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)]*	175150500000000000	0.00	
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions *[Sum of B.1(f) and B.1(g)]*	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		120,755,304.19
B.3	Total Market Risk-Weighted Assets	100000000000820000		0.00
B.4	Total Risk-Weighted Assets *[Sum of B.1, B.2 and B.3]*	100000000000800000		1,071,687,443.84
C.	**RISK-BASED CAPITAL ADEQUACY RATIO *[A.3 divided by B.4 multiply by 100]***	990000000000000000		15.69

We hereby certify that all matters set forth in this Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks are true and correct to the best of my knowledge and belief.

GENA M[illegible]NGALANG	BRIGIDA REGINA J. DE LUNA
Authorized Signatory	Authotized Signatory

MVSM BANK
(a rural bank since 1953)

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)				
Item	Nature of Item	Account Code	Amount	
A.1	Net Tier 1 Capital	395000000000710000		130,633,110.98
A.2	Net Tier 2 Capital	395000000000720000		37,496,136.79
A.3	Total Qualifying Capital *[Sum of A.1 and A.2]*	395000000000700000		168,129,247.77
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	195931000000000000		950,932,139.65
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	950,932,139.65	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000		
(d)	Total Credit Risk Weighted Assets [*Sum of B.1(a), B.1(b) and B.1(c)*]	100000000000810000	950,932,139.65	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) [*Part III, Item B.1(b) minus Part II, Item B.1(7)*]	175150500000000000	0.00	
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions [*Sum of B.1(f) and B.1(g)*]	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		120,755,304.19
B.3	Total Market Risk-Weighted Assets	100000000000820000		
B.4	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	100000000000800000		1,071,687,443.84
C.	**RISK-BASED CAPITAL ADEQUACY RATIO [*A.3 divided by B.4 multiply by 100*]**	990000000000000000		**15.69**

PART II. QUALIFYING CAPITAL (in absolute amounts)

PART II. QUALIFYING CAPITAL (in absolute amounts)				
Item	Nature of Item	Account Code	Amount	
A.	**Tier 1 (Core plus Hybrid) Capital**			
A.1	**Core Tier 1 Capital**			
(1)	Paid up common stock	305050000000000000		116,132,700.00
(2)	Deposit for common stock subscription	305250500000000000		
(3)	Paid-up perpetual and non-cumulative preferred stock	305100000000000000		19,996,800.00
(4)	Deposit for perpetual and non-cumulative preferred stock subscription	305251000000000000		
(5)	Additional paid-in capital	305200000000000000		
(6)	Retained earnings	315000000000000000		4,774,700.92
(7)	Undivided profits	315150000000000000		17,896,887.06
(8)	Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities	320101000500000000		
(9)	Cumulative foreign currency translation	320150000000000000		
(10)	Minority interest in subsidiary financial allied undertakings (i.e., RBs and venture capital corporations (VCCs) for TBs, and RBs for Coop Banks) which are less than wholly-owned (for consolidated basis) 1/	325150000000000000		
(11)	Sub-total *[Sum of A.1(1) to A.1(10)]*	300000000000711000		158,801,087.98
A.2	**Deductions from Core Tier 1 Capital**			
(1)	Common stock treasury shares (for consolidated basis)	365050500000711000		
(2)	Perpetual and non-cumulative preferred stock treasury shares (for consolidated basis)	365051000000711000		
(3)	Net unrealized losses on available for sale equity securities purchased	365051500000711000	28,350,000.00	
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board	365052000000711000		
(5)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	365052500000711000		
(6)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses	365053000000711000		
(7)	Deferred tax asset, net of deferred tax liability 1/	365053500000711000	(182,023.00)	
(8)	Goodwill, net of allowance for losses 1/	365054000000711000		
(9)	Total Deductions *[Sum of A.2(1) to A.2(8)]*	365050000000711000		28,167,977.00
A.3	**Total Core Tier 1 Capital *[A.1(11) minus A.2(9)]***	395000000000711000		130,633,110.98

PART II. QUALIFYING CAPITAL (in absolute amounts)

Item	Nature of Item	Account Code	Amount
A.4	**Hybrid Tier 1 Capital**		
(1)	Perpetual preferred stock	310030500000000000	
(2)	Perpetual unsecured subordinated debt	310031000000000000	
(3)	Total Hybrid Tier 1 Capital *[Sum of A.4 (1) and A.4 (2)]*	300000000000712000	0.00
(4)	Eligible Hybrid Tier 1 Capital *[limited to 17.65% of Total Core Tier 1 Capital (Item A.3)]*	396000000000712000	0.00
A.5	**Total Tier 1 Capital** ***[Sum of A.3 and A.4 (4)]***	300000000000710000	130,633,110.98
B.	**Tier 2 (Supplementary) Capital**		
B.1	**Upper Tier 2 Capital**		
(1)	Paid-up perpetual and cumulative preferred stock	305150000000000000	
(2)	Deposit for perpetual and cumulative preferred stock subscription	305251500000000000	
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption	220250500000000000	
(4)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption	305252000000000000	
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board	325050000000000000	21,493,367.40
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)	320052000500000000	12,757,500.00
(7)	General loan loss provision [limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)]	175151000000000000	3,245,269.39
(8)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)	295202001000000000	
(9)	Hybrid Tier 1 Capital (in excess of the max allowable 15% limit of total Tier 1 capital) *[A.4 (3) minus A.4 (4)]*	310031500000000000	0.00
(10)	Sub-total *[Sum of B.1 (1) to B.1 (9)]*	300000000000721000	37,496,136.79

Item	Nature of Item	Account Code	Amount
B.	**Tier 2 (Supplementary) Capital**		
B.1	**Upper Tier 2 Capital**		
(1)	Paid-up perpetual and cumulative preferred stock	305150000000000000	
(2)	Deposit for perpetual and cumulative preferred stock subscription	305251500000000000	
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption	220250500000000000	
(4)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption	305252000000000000	
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board	325050000000000000	21,493,367.40
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)	320052000500000000	12,757,500.00
(7)	General loan loss provision [limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)]	175151000000000000	3,245,269.39
(8)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)	295202001000000000	
(9)	Hybrid Tier 1 Capital (in excess of the max allowable 15% limit of total Tier 1 capital) *[A.4 (3) minus A.4 (4)]*	310031500000000000	0.00
(10)	Sub-total *[Sum of B.1 (1) to B.1 (9)]*	300000000000721000	37,496,136.79

Item	Nature of Item	Account Code	Amount
B.2	**Deductions from Upper Tier 2**		
(1)	Perpetual and cumulative preferred stock treasury shares (for consolidated basis)	365100500000721000	
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)	365101000000721000	
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption	365101500000721000	
(4)	Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities	365102000000721000	
(5)	Total Deductions *[Sum of B.2 (1) to B.2 (4)]*	365100000000721000	0.00
B.3	**Total Upper Tier 2 Capital** ***[B.1 (10) minus B.2 (5)]***	395000000000721000	37,496,136.79
B.4	**Lower Tier 2 Capital**		
(1)	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if	220251000000000000	

Item	Nature of Item	Account Code	Amount	
	PART II. QUALIFYING CAPITAL (in absolute amounts)			
(1)	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)	220251000000000000		
(2)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption	305252500000000000		
(3)	Unsecured subordinated debt with a minimum original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)	295202002000000000		
(4)	Sub-total *[Sum of B.4 (1) to B.4 (3)]*	300000000000722000		0.00
B.5	**Deductions from Lower Tier 2**			
(1)	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)	365150500000722000		
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)	365151000000722000		
(3)	Total Deductions *[Sum of B.5 (1) and B.5 (2)]*	365150000000722000		0.00
B.6	**Total Lower Tier 2 Capital** *[B.4 (4) minus B.5 (3)]*	395000000000722000		0.00
B.7	**Eligible Amount of Lower Tier 2 Capital** *(limited to 50% of total Tier 1 capital per item A.5)*	396000000000722000		0.00
B.8	**Total Tier 2 Capital** *[Sum of B.3 and B.7]*	300000000000720000		37,496,136.79
B.9	**Eligible Amount of Tier 2 Capital** *(limited to 100% of total Tier 1 capital per item A.5)*	396000000000720000		37,496,136.79
C.	**Gross Qualifying Capital** *[Sum of A.5 and B.9]*	396000000000700000		168,129,247.77
(1)	Total Tier 1 Capital *(Item A.5)*	300000000000710001	130,633,110.98	
(2)	Total Tier 2 Capital *(Item B.9)*	396000000000720001	37,496,136.79	
D.	**Deductions from Tier 1 and Tier 2 Capital**			
(1)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis)	365200500000700000		
(2)	Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis)	365201000000700000		
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases)	365201500000700000		
(4)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases)	365202000000700000		
(5)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises	365202500000700000		
(6)	Total Deductions *[Sum of D (1) to D (5)]*	365200000000700000		0.00
E.	**Net Tier 1 and Tier 2 Capital**			
E.1	Net Tier 1 Capital [4/] *[C (1) minus [D (6) multiply by 50%]]*	395000000000710000	130,633,110.98	
E.2	Net Tier 2 Capital [4/] *[C (2) minus [D (6) multiply by 50%]]*	395000000000720000	37,496,136.79	
F.	**Total Qualifying Capital** *[C minus D (6)]*	395000000000700000		168,129,247.77

[1/] Provided that a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as an avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1.

[2/] Provided that the conditions to offset under PAS 12 are met and that any excess of deferred tax liability over deferred tax assets (i.e., net deferred tax liability) shall not be added to Tier 1 capital.

[3/] This shall include those relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases).

[4/] The amount to be deducted from Tier 2 capital shall be limited to its balance and any excess thereof shall be deducted from Tier 1 capital.

MVSM BANK
(a rural bank since 1953)

PART III.1. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

PART III.1. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

Item		Nature of Item	Account Code	Net Carrying Amount * (1)	Risk Weight (in %) (2)	Risk Weighted Amount (3) = (1) * (2)
A.		0% Risk Weight –				
(1)		Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves)	10505000000000000	24,455,279.22		
(2)		Peso denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the BSP				
	(a)	Due from BSP	10515000050000000	26,152,986.71		
	(b)	Financial assets designated at fair value through profit or loss	11500100050000000			
	(c)	Available for sale financial assets	19520100050000000			
	(d)	Held-to-maturity financial assets	19525100050000000	428,731,276.48		
	(e)	Unquoted debt securities classified as loans	19530100050000000			
	(f)	Loans and receivables	19540120050000000			
	(g)	Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions	19540200050000000			
	(h)	Others	19900000000000000			
(3)		Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality	10810050000000000			
(4)		Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks with the highest credit quality	10810100000000000			
(5)		Loans to the extent covered by hold-out on, or assignment of, deposits/deposit substitutes maintained with the lending bank	14015050750060000	7,885,619.22		
(6)		Loans or acceptances under letters of credit (LCs) to the extent covered by margin deposits	14015050800060000			
(7)		Peso denominated special time deposit loans to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF)	14015050850060000			
(8)		Peso denominated real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation (HGC)	14015051050060000			
(9)		Peso denominated loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP)	14015050950060000			
(10)		Sub-total *[Sum of A(1) to A(9)]*	10000000000081100	487,225,161.63	0	0.00
B.		20% Risk Weight -				
(1)		Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international reserves)	10510000000000000	2,920,900.33		
(2)		Claims on or portions of claims guaranteed by or collateralized by securities issued by local government units (LGUs) with the highest credit quality	10810150000000000			
(3)		Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality	10810200000000000			
(4)		Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality	10810250000000000			
(5)		Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality	10810300000000000			
(6)		Interbank call loans	19540100050000000			
(7)		Claims on or portion of claims guaranteed by Philippine incorporated private enterprises, including claims on government corporations and MSME not qualifying under highly diversified loan portfolio definition, with the highest credit quality	10810350000000000			
(8)		Claims on or portion of claims guaranteed by foreign incorporated private enterprises, including claims on government corporations, with the highest credit quality	10810400000000000			
(9)		Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) subject to the conditions enumerated in Circular No. 713 dated 14 February 2011	14015051950060000			
(10)		Loans to performing MSME loans to the extent guaranteed by a Credit Surety Fund (CSF) Cooperative, subject to the conditions prescribed under Appendix 63c of the MORB	14015052000060000			
(11)		Sub-total [Sum of B (1) to B (10)]	10000000000081200	2,920,900.33	20	584,180.07
C.		50% Risk Weight -				
(1)		Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing	14015000400010000	228,311,376.16		

PART III.1. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

Item		Nature of Item	Account Code	Net Carrying Amount * (1)	Risk Weight (in %) (2)	Risk Weighted Amount (3) = (1) * (2)
(2)		Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP	100104501500000000			
(3)		Sub-total [Sum of C(1) to C(2)]	100000000000011300	228,311,376.16	50	114,155,688.08
D.		75% Risk Weight –				
(1)		Qualified micro, small and medium enterprise (MSME) loan portfolio	140100500000000000	270,097,545.09	75	202,573,159.42
E.		100% Risk Weight –				
(1)		Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower	140500040000000000	14,434,054.39	100	14,434,054.39
F.		150% Risk Weight –				
(1)		All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities	142001000000000000	32,802,938.68	150	49,204,408.02
(2)		Real and other properties acquired and Non-current assets held for sale, net of allowance for losses	165502050000000000	170,774,547.00	150	256,161,820.50
G.		100% Risk Weight –				
(1)		Other Assets				
	(a)	Total Assets per Balance Sheet	100000000000000000	1,512,958,060.07		
	(b)	General Loan Loss Provisions per Balance Sheet	175150000000000000	3,249,269.39		
	(c)	Total Exposures excluding Other Assets [Sum of A(10), B(11), C(3), D(1), E(1), F(1) and F(2)]	300050000000001000	1,214,506,524.00		
	(d)	Sub-total *[Sum of G(1)(a) and G(1)(b) minus G(1)(c)]*	195000500000001000	301,636,806.18		
(2)		Deductions from Other Assets				
	(a)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses *[refer to Part II item A.2 (5)]*	165500500000001000	0.00		
	(b)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses *[refer to Part II item A.2 (6)]*	165501000000001000	0.00		
	(b)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses *[refer to Part II item A.2 (6)]*	165501000000811000	0.00		
	(c)	Deferred tax asset, net of deferred tax liability *[refer to Part II item A.2 (7)]*	165501500000811000	(182,023.00)		
	(d)	Goodwill, net of allowance for losses *[refer to Part II item A.2 (8)]*	165502000000811000	0.00		
	(e)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption *[refer to Part II item B.2 (3)]*	165502500000811000	0.00		
	(f)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor) *[refer to Part II item B.5 (2)]*	165503000000811000	0.00		
	(g)	Investment in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks, after deducting related goodwill, if any (for solo basis) *[refer to Part II item D (1)]*	165503500000811000	0.00		
	(h)	Investments in other regulatory capital instruments of unconsolidated RBs for Coop Banks (for solo basis) *[refer to Part II item D (2)]*	165504000000811000	0.00		
	(i)	Investment in equity of subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases) *[refer to Part II item D (3)]*	165504500000811000	0.00		
	(j)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases) *[refer to Part II item D (4)]*	165505000000811000	0.00		
	(k)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises *[refer to Part II item D (5)]*	165505500000811000	0.00		
	(l)	Net accumulated market gains/(losses) on available for sale debt securities purchased	165506000000811000			
	(m)	Financial Assets Held for Trading	165506500000811000			
	(n)	Derivatives with Positive Fair Value Held for Hedging	165507000000811000			
	(o)	Total Deductions *[Sum of G(2)(a) to G(2)(n)]*	165500000000811000	(182,023.00)		
(3)		Net Other Assets *[G(1)(d) minus G(2)(o)]*	195000000000811000	301,818,829.18	100	301,818,829.18
H.		TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS [Sum of A(10), B(11), C(3), D(1), E(1), F(1), F(2) and G(3)]	100000000000811000			950,932,139.65

* This shall refer to the outstanding balance of the account inclusive of unamortized discount/(premium) and accumulated market gains/(losses), and net of allowance for credit losses, except that for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back.

Page 2

Page 3

MVSM BANK
(a rural bank since 1953)

PART III.2. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

PART III.2 RISK-WEIGHTED OFF-BALANCE SHEET ASSETS (in absolute amounts)

Item	Nature of Item	Account Code	Seq. No.	Notional Principal Amount	Credit Conv. Factor (CCF)	Credit Equivalent Amount	Distribution of Credit Equivalent Amount According to Risk Weights *				Total
							0%	20%	75%	100%	
				(1)	(2)	(3)=(1)*(2)	(4)	(5)	(6)	(7)	(Sum of 4 to 7)
A.	Direct credit substitutes (e.g. general guarantees of indebtedness and acceptances)										
(1)	Guarantees issued other than shipside bonds/airway bills	[illegible]			100%	0.00					
(2)	Financial standby letters of credit - domestic (net of margin deposit)	[illegible]			100%	0.00					
(3)	Financial standby letters of credit - foreign (net of margin deposit)	[illegible]			100%						
(4)	Sub-total [Sum of A.(1) to A.(3)]	[illegible]		0.00		0.00	0.00	0.00		0.00	
(5)	Risk-weighted amount [A.(4) x applicable risk weight]	[illegible]					0.00	0.00		0.00	0.00
B.	Transaction-related contingencies (e.g. performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)										
(1)	Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	[illegible]			50%	0.00					
(2)	Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	[illegible]			50%						
(3)	Other Commitments e.g. formal standby facilities and credit lines with maturity of more than one year	[illegible]			50%	0.00					
(4)	Sub-total [Sum of B.(1) to B.(3)]	[illegible]		0.00		0.00	0.00	0.00		0.00	
(5)	Risk-weighted amount [B.(4) x applicable risk weight]	[illegible]					0.00	0.00		0.00	0.00
C.	Trade-related contingencies arising from movement of goods (e.g. documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year										
(1)	Trade related guarantees – shipside bonds/airway bills	[illegible]			20%	0.00					
(2)	Trade related guarantees – LCs confirmed	[illegible]			20%	0.00					
(3)	Sight LCs - domestic (net of margin deposit)	[illegible]			20%	0.00					
(4)	Sight LCs - foreign (net of margin deposit)	[illegible]			20%						
(5)	Usance LCs - domestic (net of margin deposit)	[illegible]			20%	0.00					
(6)	Usance LCs - foreign (net of margin deposit)	[illegible]			20%						
(7)	Deferred LCs - domestic (net of margin deposit)	[illegible]			20%	0.00					
(8)	Deferred LCs - foreign (net of margin deposit)	[illegible]			20%						
(9)	Revolving LCs - domestic (net of margin deposit) arising from movement of	[illegible]			20%	0.00					

PART III.2 RISK-WEIGHTED OFF-BALANCE SHEET ASSETS (in absolute amounts)

Item		Nature of Item	Account Code	Seq No	Notional/Principal Amount (1)	Credit Conv Factor (CCF) (2)	Credit Equivalent Amount (1)x(2)	Distribution of Credit Equivalent Amount According to Risk Weights * 0%	20%	50%	100%	Total
	(9)	Revolving LCs - foreign (net of margin deposit) arising from movement of goods and/or services	[illegible]			20%						
	(10)	Other commitments with an original maturity of up to 1 year	[illegible]			20%	0.00					
	(11)	Sub-total [Sum of C(1) to C(10)]	[illegible]		0.00		0.00	0.00	0.00	0.00	0.00	
	(12)	Risk-weighted amount [C(11) x applicable risk weight]	[illegible]					0.00	0.00	0.00	0.00	0.00
D.		Other commitments which can be unconditionally cancelled at any time by the bank without prior notice										
	(1)	Credit card lines	[illegible]			0%						
E.		Items not involving credit risk										
	(1)	Late deposits/payments received	[illegible]			0%						
	(2)	Inward bills for collection	[illegible]			0%						
	(3)	Outward bills for collection	[illegible]			0%						
	(4)	Travelers' checks unsold	[illegible]			0%						
	(5)	Trust department accounts	[illegible]			0%						
	(6)	Items held for safekeeping/custodianship	[illegible]			0%						
	(7)	Items held as collaterals	[illegible]			0%						
	(8)	Deficiency claims receivable	[illegible]			0%						
	(9)	Others (Please specify)	[illegible]		0.00	0%						
						0%						
	(10)	Sub-total [Sum of E(1) to E(9)]	[illegible]		0.00							
F.		Total Notional/Principal Amount [illegible]	[illegible]		0.00							
G.		TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS [illegible]	[illegible]									0.00

* Assign the appropriate risk weight according to the obligor, or if relevant, the qualified guarantor or the nature of the collateral.

PART IV. OPERATIONAL RISK-WEIGHTED ASSETS (in absolute amounts)

PART IV. OPERATIONAL RISK-WEIGHTED ASSETS (in absolute amounts)

Item	Nature of Item	Account Code	Gross Income Year 3	Year 2	Last Year	Average [1/]
A. Net interest income						
A.1	Interest Income	505050000000000000	75,466,146.04	73,274,475.73	76,157,567.12	
A.2	Interest Expense	605100000000000000	11,226,463.51	11,287,507.17	10,033,396.88	
A.3	Sub-total *(A.1 minus A.2)*	505000000000000000	64,239,682.53	61,986,968.56	66,124,170.24	
B. Other non-interest income						
B.1	Dividend Income	510050000000000000				
B.2	Fees and Commissions Income	510100000000000000	9,194,344.84	5,201,140.44	5,654,177.72	
B.3	Net Gain/loss on Financial Assets and Liabilities Held for Trading	510150000000000000				
B.4	Net Gain/loss on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss	510200000000000000				
B.5	Net Profit/loss on Foreign Exchange	510250000000000000				
B.6	Net Gain/loss on Fair Value Adjustment in Hedge Accounting	510350000000000000				
B.7	Other Income	510450000000000000	10,244,287.39	7,025,324.12	11,840,512.54	
B.8	Sub-total *(Sum of B.1 to B.7)*	510000000000000000	19,438,632.23	12,226,464.56	17,494,690.26	
C. Gross Income *(Sum of A.3 and B.8)*		500000000000000000	83,678,314.76	74,213,433.12	83,618,860.50	80,503,536.13
D. Capital Charge *[C (average) multiply by Capital Charge Factor of 12%]*		990000000000830000				9,660,424.34
E. Adjusted Capital Charge *(D multiply by 125%)*		996000000000830000				12,075,530.42
F. TOTAL OPERATIONAL RISK-WEIGHTED ASSETS *(E multiply by 10)*		195000000000830000				120,755,304.19

[1/] When calculating the average, include only the positive annual gross income; hence, figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator

P&A
Grant Thornton

FOR BSP FILING

Financial Statements and
Independent Auditors' Report

MVSM Bank (A Rural Bank since 1953), Inc.

December 31, 2022 and 2021

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

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors
MVSM Bank (A Rural Bank since 1953), Inc.
389 J.P. Rizal St.
Sto. Niño, Marikina City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MVSM Bank (A Rural Bank since 1953), Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by the Bangko Sentral ng Pilipinas for the years ended December 31, 2022 and 2021 and by the Bureau of Internal Revenue for the year ended December 31, 2022, as disclosed in Notes 23 and 24 to the financial statements, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Yusoph A. Maute
Partner

CPA Reg. No. 0140306
TIN 415-417-641
PTR No. 9566638, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 140306-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-046-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 13, 2023

P&A Grant Thornton

YEARS
Shaping a Vibrant Tomorrow
#BoldPerspectives #DivergentThinking #ForgingPaths

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

T +63 2 8988 2288

Supplemental Statement of Independent Auditors

The Board of Directors
MVSM Bank (A Rural Bank since 1953), Inc.
389 J.P. Rizal St.
Sto. Niño, Marikina City

We have audited the financial statements of MVSM Bank (A Rural Bank since 1953), Inc. (the Bank) for the year ended December 31, 2022, on which we have rendered the attached report dated April 13, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has 20 stockholders owning 100 or more shares each of the Bank's capital stock as of December 31, 2022, as disclosed in Note 17 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Yusoph A. Maute
Partner

CPA Reg. No. 0140306
TIN 415-417-641
PTR No. 9566638, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 140306-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-046-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 13, 2023

MVSM BANK (A RURAL BANK SINCE 1953), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	7	**P 27,376,179**	P 27,038,297
DUE FROM BANGKO SENTRAL NG PILIPINA	7	**26,271,043**	36,270,708
DUE FROM OTHER BANKS	7	**138,211,707**	62,849,381
INVESTMENT SECURITIES - Net	8	**486,736,277**	475,135,831
LOANS AND OTHER RECEIVABLES - Net	9	**604,830,937**	572,153,197
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**57,720,710**	46,302,976
INVESTMENT PROPERTIES - Net	11	**178,774,547**	165,531,035
OTHER RESOURCES - Net	12	**4,589,023**	4,544,634
TOTAL RESOURCES		**P 1,524,510,423**	P 1,389,826,059
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	13	**P 1,264,785,938**	P 1,160,675,483
ACCRUED INTERESTS AND OTHER TAXES	14	**2,656,095**	3,764,279
INCOME TAX PAYABLE		**2,615,774**	3,488,643
POST-EMPLOYMENT BENEFIT OBLIGATIO	19	**3,878,352**	2,455,240
DEFERRED TAX LIABILITIES - Net	20	**4,132,908**	182,023
OTHER LIABILITIES	15	**33,096,688**	22,376,483
Total Liabilities		**1,311,165,755**	1,192,942,151
EQUITY	17	**213,344,668**	196,883,908
TOTAL LIABILITIES AND EQUITY		**P 1,524,510,423**	P 1,389,826,059

See Notes to Financial Statements.

MVSM BANK (A RURAL BANK SINCE 1953), 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	9	**P 67,469,641**	P 67,643,335
Investment securities	8	**14,327,826**	8,344,824
Due from other banks	7	**657,776**	169,408
		82,455,243	76,157,567
INTEREST EXPENSE	13, 15	**8,250,956**	11,229,456
NET INTEREST INCOME		**74,204,287**	64,928,111
IMPAIRMENT AND CREDIT LOSSES - Net	9	**1,976,254**	4,172,406
NET INTEREST INCOME AFTER IMPAIRMENT AND CREDIT LOSSES		**72,228,033**	60,755,705
OTHER INCOME	18	**18,147,204**	22,145,349
OPERATING INCOME		**90,375,237**	82,901,054
OPERATING EXPENSES	18	**65,157,541**	65,602,716
PROFIT BEFORE TAX		**25,217,696**	17,298,338
TAX EXPENSE	20	**5,982,196**	6,285,108
NET PROFIT		**19,235,500**	11,013,230
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Unrealized fair value gains (losses) on investment securities at fair value through other comprehensive income	8	**13,500,000**	10,500,000
Remeasurement of post-employment defined benefit plan	19	**(864,113)**	476,237
Tax income (expense)	20	**(3,158,972)**	(862,258)
Other Comprehensive Income (Loss) - Net of Tax		**9,476,915**	10,113,979
TOTAL COMPREHENSIVE INCOME		**P 28,712,415**	P 21,127,209

See Notes to Financial Statements.

MVSM BANK (A RURAL BANK SINCE 1953), INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Capital Stock (see Note 17)		Surplus Reserves			Revaluation Reserves			
	Preferred Stock	**Common Stock**	**Appraisal Increment** (see Note 2)	**Regulatory** (see Note 17)	**Total**	**Net Unrealized Fair Value Gains (Losses) on Investment Securities at Fair Value through Other Comprehensive Income** (see Note 17)	**Remeasurements of Post-employment Defined Benefit Obligation** (see Note 17)	**Surplus (Deficit)** (see Notes 2 and 17)	**Total Equity**
Balance at January 1, 2022	P 19,996,800	P 116,132,700	P 21,493,367	P 2,004,149	P 23,497,516	P 28,350,000	(P 6,128,024)	P 15,034,916	P 196,883,908
Dividends	-	-	-	-	-	-	-	(12,251,655)	(12,251,655)
Total comprehensive income for the year	-	-	-	-	-	10,125,000	(648,085)	19,235,500	28,712,415
Balance at December 31, 2022	**P 19,996,800**	**P 116,132,700**	**P 21,493,367**	**P 2,004,149**	**P 23,497,516**	**P 38,475,000**	**(P 6,776,109)**	**P 22,018,761**	**P 213,344,668**
Balance at January 1, 2021	P 19,996,800	P 116,132,700	P 21,493,367	P 2,004,149	P 23,497,516	P 19,110,000	(P 7,002,003)	P 13,550,751	P 185,285,764
Dividends	-	-	-	-	-	-	-	(9,529,065)	(9,529,065)
Total comprehensive income (loss) for the year	-	-	-	-	-	9,240,000	873,979	11,013,230	21,127,209
Balance at December 31, 2021	P 19,996,800	P 116,132,700	P 21,493,367	P 2,004,149	P 23,497,516	P 28,350,000	(P 6,128,024)	P 15,034,916	P 196,883,908

See Notes to Financial Statements.

MVSM BANK (A RURAL BANK SINCE 1953), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 25,217,696**	P 17,298,338
Adjustments for:			
Interest income	7, 8, 9	**(82,455,243)**	(76,157,567)
Interest received		**80,384,881**	75,733,111
Interest paid		**(8,901,975)**	(11,708,246)
Interest expense	13, 15	**8,250,956**	11,229,456
Depreciation and amortization	10, 11	**7,219,881**	5,372,260
Gain on sale of properties	11	**(2,966,243)**	(4,624,124)
Impairment and credit losses - net	9	**1,976,254**	4,172,406
Gain on rent concession	15	**(94,046)**	-
Amortization of premium (discount) of investment securities at amortized cost - net	8	**(50,167)**	5,423,955
Operating profit before working capital changes		**28,581,994**	26,739,589
Increase in deposit liabilities		**104,761,474**	38,582,452
Increase in loans and other receivables		**(32,583,632)**	(9,957,241)
Decrease (increase) in investment properties		**(10,528,064)**	9,200,378
Increase in other liabilities		**5,565,079**	9,501,963
Decrease in post-employment benefit obligation		**(3,319,353)**	(915,757)
Decrease in accrued expenses and other taxes		**(1,108,184)**	(916,716)
Decrease (increase) in other resources		**(44,389)**	(922,025)
Cash from operations		**91,324,925**	71,312,643
Cash paid for income taxes		**(7,457,398)**	(5,065,726)
Net Cash From Operating Activities		**83,867,527**	66,246,917
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments at amortized cost	8	**(238,962,880)**	(218,076,837)
Maturities of investment securities at amortized cost	8	**240,912,601**	139,573,392
Acquisitions of bank premises, furniture fixtures and equipment	10	**(5,111,858)**	(1,286,703)
Net Cash Used in Investing Activities		**(3,162,137)**	(79,790,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends	17	**(12,251,655)**	(9,529,065)
Payments of lease liability	15	**(2,753,192)**	(595,667)
Cash Used in Financing Activities		**(15,004,847)**	(10,124,732)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**65,700,543**	(23,667,963)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	7	**27,038,297**	22,793,328
Due from Bangko Sentral ng Pilipinas	7	**36,270,708**	35,641,643
Due from other banks	7	**62,849,381**	91,391,378
		126,158,386	149,826,349
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	7	**27,376,179**	27,038,297
Due from Bangko Sentral ng Pilipinas	7	**26,271,043**	36,270,708
Due from other banks	7	**138,211,707**	62,849,381
		P 191,858,929	P 126,158,386

Supplementary Information on Non-cash Investing and Financing Activities:

(1) In 2022, the Bank recognized additional right-of-use assets amounting to P13.3 million with corresponding lease liabilities of the same amount to the newly entered lease contracts (see Note 15).

(2) In 2022 and 2021, the Bank recognized additional investment properties through foreclosure or dacion en pago amounting to P19.8 million and P1.1 million, respectively, (see Note 11).

See Notes to Financial Statements.

MVSM BANK (A RURAL BANK SINCE 1953), INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 General Information

The MVSM Bank (A Rural Bank since 1953), Inc. (the Bank), was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on June 17, 1953. The Bank is the pioneer bank in the areas of San Mateo, Rizal and Marikina.

The Bank's products and services are traditional deposits such as savings deposit, certificate of time deposit and demand deposit. The Bank also offers various types of loans such as commercial, agricultural and personal loans. As at December 31, 2022, the Bank has ten branches including its main branch, which are strategically located in the National Capital Region and Region IV-A.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of Republic Act (R.A.) No. 8791, *The General Banking Law of 2000*, and other related banking laws.

The Bank's registered office, which is also its principal place of business, is located at 389 J.P. Rizal St., Sto. Niño, Marikina City.

1.2 Continuing Impact of COVID-19 Pandemic on the Bank's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved because of reopening of local and international travels and loosening of health and safety protocols and restrictions. Demand and supply of products are slowly returning to pre-pandemic levels. As a result, overall continuing impact of the COVID-19 pandemic to the Bank is continuously improving.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management projects that the Bank would continue to report positive results of operations and would remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern due to the effects of the pandemic.

1.3 Approval of Financial Statements

The financial statements of the Bank as at 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 13, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial 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 resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income, expense and other comprehensive income 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 required to be disclosed.

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of Amended PFRS*

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

The Bank adopted for the first time the following amendments 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 and in the succeeding page are the relevant information about these pronouncements.

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

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

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

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

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

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

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

(i) PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework*

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

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

b. PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) Effective Subsequent to 2022 but not Adopted Early

There are amendments and improvements to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, 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 noncurrent classification is presented in Note 16. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Bank classifies all other liabilities as noncurrent.

Deferred 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.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as fair value through profit or loss (FVTPL) are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized as expense in profit or loss.

(i) Classification, Measurement and Reclassification 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. The classification and measurement of financial assets are discussed below and in the succeeding pages.

Financial Assets at Amortized Cost

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

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

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

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. 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, Loans and Other Receivables, Investment Securities at Amortized Cost, and Advance deposits (presented as part of Others under Other Resources).

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances 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 may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2022 and 2021, the Bank has not made such designation.

Financial Assets at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has designated propriety golf club shares as at FVOCI on initial application of PFRS 9 (see Note 8.2). The Bank currently has no debt instruments in its FVOCI financial asset.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account.

Any dividends earned on holding these equity instruments are recognized in profit or loss, when the Bank's right to receive dividends is established in unless the dividends clearly represent recovery of a part of the cost of the investment.

(ii) Recognition of Interest Income Using the Effective Interest Rate Method

Interest income on financial assets measured at amortized cost is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

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

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

The interest earned is recognized as part of Interest Income account in the statement of comprehensive income.

(iii) Impairment of Financial Assets

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost. It considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures 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.

For these financial instruments, 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 purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.2.

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.

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

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.2.

(iv) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets (i) from amortized cost to 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.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification.

Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(v) Derecognition of Financial Assets

(i) 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; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. 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 purchased or originated credit-impaired 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.

(ii) Derecognition of Financial Assets Other than Through Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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 a collateralized borrowing for the proceeds received.

(b) Financial Liabilities

Financial liabilities of the Bank, which include deposit liabilities, accrued interest and other expenses (excluding tax-related payables and post-employment benefit obligation), and other liabilities are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized 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 accumulated impairment losses, if any. All other bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The cost of bank premises, furniture, fixtures and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures for additions, major improvements and renewals are capitalized; 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:

Building	10 to 25 years
Transportation equipment	5 years
Furniture, fixtures and equipment	3 to 5 years
IT equipment	3 years

Leasehold improvements are amortized using the estimated useful lives of 5 to 25 years or the remaining term of the lease whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge of depreciation and amortization is made in respect of those assets.

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 2.12).

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

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

2.6 Investment Properties

Investment properties pertain to parcels of land and buildings 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 or in the next 12 months, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost, including directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs.

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.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less any impairment in value. Impairment loss is recognized in the same manner as in bank premises, furniture, fixtures and equipment (see Note 2.12).

Depreciation for the building is computed using the straight-line method over the estimated useful lives of the depreciable asset of ten years.

The carrying amount of an investment property is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

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 disposal of an investment property is recognized in profit or loss is presented as part of Gain (loss) on sale of fixed assets under Other Income or Operating Expense account in the year of disposal.

2.7 Other Resources

Other resources pertain to other assets 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.

2.8 Provision 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.

2.9 Other Income and Expense Recognition

Revenue 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 partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15. For revenues arising from 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:

(a) Service Charges, Fees and Commissions

(i) *Commission and fees* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed. Thus, revenue is recognized over time.

(ii) *Penalties* – these are charges from deposit accounts that fall under dormancy or maintaining balance. These fees are recognized at a point in time.

(b) Gains on Sale of Properties

Gains on sale of properties under Other Income include net gains or losses from the disposals of bank premises, furniture, fixtures and equipment and investment properties. The Bank recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Thus, revenue is recognized at a point in time.

2.10 Leases – Bank as Lessee

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

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

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

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

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

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.12).

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

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

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

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

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

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

2.11 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(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, if any, 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 post-employment benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for 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 the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows arising from expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond [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, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is included as part of Salaries and employee benefits under Operating Expenses in the statement of comprehensive income.

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

(b) 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 end of the reporting period are discounted to their present value.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. In addition, the Bank recognizes a liability and an expense for other employee benefits based on a formula that is fixed, regardless of the Bank's income after certain adjustments, and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation. They are included in Others under Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

(d) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Bank expects to pay as a result of the unused entitlement.

2.12 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment (including right-of-use assets), investment properties and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount 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 amount which is the higher of fair value, reflecting market conditions, less costs to sell and 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. Impairment loss is charged pro rata to other assets in the cash-generating unit.

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

2.13 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 capital funds, 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 reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward 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.

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.

2.14 Related Party Transactions and Relationships

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

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

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

2.15 Equity

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

Surplus reserves comprise of appraisal increment from land, as approved by the Monetary Board (MB) of the BSP upon the merger of Marikina Valley Rural Bank and Bank of San Mateo in 2008, and regulatory reserves which pertain to the accumulated amount of appropriation made by the Bank arising from the excess of the one percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed ECL for Stage 1 accounts.

Revaluation reserves include remeasurements of post-employment defined benefit obligation and unrealized fair value gains (losses) arising from the investment securities at FVOCI.

Surplus represents all current and prior period results of operations as reported in the profit or loss section in the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.16 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

The Bank uses external benchmarking and historical loss rates to calculate ECL for all debt instruments carried at FVOCI and amortized cost. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. 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 significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, it 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 the Bank's investment objective for the business model.

(c) Distinguishing Investment Properties and Owner-managed 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 an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank's operations.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

As of the end of the reporting period, the Bank has certain building which comprise a portion that is held for rental and other portion is used for operations which were classified by the Bank as Investment Property or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(d) Determination of Lease Term of Contracts with Renewal Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended.

For leases of office spaces, the factors that are normally the most relevant are (i) if there are significant penalties should the Bank pre-terminate the contract, and (ii) 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 included the renewal period as part of the lease term for leases of certain office spaces due to the significance of these assets to its operations. These leases have non-cancellable lease period (i.e., five to ten years) and there will be a significant negative effect on the Bank's operations and day-to-day transactions if a replacement is not readily available.

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

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.8 and relevant disclosures on those provisions and contingencies are presented in Note 22.

3.2 Key Sources of Estimation of Uncertainty

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

(a) Estimation of Allowance for ECL

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2.

The carrying value of investment debt securities at amortized cost, at FVOCI and loans and other receivables together with the analysis of the allowance for impairment on such financial assets, are shown in Notes 8 and 9, respectively.

(b) 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.

(c) Determination of Fair Value Measurement for Financial Assets at FVOCI

The Bank carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 8.2).

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

The carrying values of the Bank's investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 8.2.

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

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

The carrying amounts of bank premises, furniture, fixtures and equipment, including right-of-use assets, and investment properties are presented in Notes 10 and 11. Based on management's assessment as at December 31, 2022 and 2021, there are no changes in the estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Estimating 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 (see Note 2.12). 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 these 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.

No impairment loss was recognized on bank premises, furniture, fixtures, and equipment, including right-of-use assets and investment properties, in 2022 and 2021 (see Notes 10 and 11).

(f) Determining Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land acquired from defaulting borrowers not held-for-sale in the next 12 months, which are measured at cost. The estimated fair values of these assets, as disclosed in Note 11, are determined by in-house and/or independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties.

For investment properties with appraisal conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of the fair value of those properties (see Note 6.4).

(g) Determining Recoverable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the carrying amount of deferred tax assets recognized in the statement of financial position as disclosed in Note 20 is fully recoverable as at December 31, 2022 and 2021.

(h) Valuation of Post-employment Benefit Obligation

The determination of the Bank's post-employment benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. 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 amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to certain financial risks in relation to its financial instruments. The Bank's financial assets and financial liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

The Bank's risk management is closely coordinated with the BOD, the Management Committee and the Risk Management Committee (RMC) of the Bank and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate reasonable returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Bank is exposed to are described as follows:

4.1 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk.

4.1.1 Foreign Currency Risk

The Bank has no significant exposure to foreign currency risks as most transactions are denominated in Philippine pesos, its functional currency.

4.1.2 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 other banks (see Note 7.3). The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. All other financial assets and financial liabilities such as loans and discounts and deposit liabilities have fixed rates, hence, were not considered in the cash flow interest rate risk sensitivity.

To mitigate this risk, the Bank follows a prudent policy in managing resources and liabilities in order to ensure that exposure to interest rate risk are kept within acceptable levels.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. This includes risk of non-payment by borrowers and issuers, failed settlement of transactions and default on outstanding contracts.

The Bank performs individual review of commercial accounts and aging analysis for consumer loans to come up with risk ratings for computation of required reserves.

The Bank's loans and other receivables are actively monitored to avoid significant concentrations and possible deterioration of credit risk.

The Bank's activities are governed by its Credit Risk Policy Manual which defines guiding principles and parameters for credit activities as well as roles and responsibilities of every party to the over-all credit process. Credit policies and standards are periodically reviewed to ensure effectiveness and relevance.

The Credit Committee undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Credit Committee reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

For investments in debt securities, credit risk is addressed by setting limits as to the maximum amount of investment that can be made on certain type of security with consideration of the credit quality of the counterparty.

4.2.1 Credit Risk Assessment and Measurement

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. In accordance with the Bank's policy, a debt instrument is assessed for impairment based on the following stages:

Stage 1: When a debt instrument is first recognized, the Bank recognizes credit losses based on the 12-month ECLs. Stage 1 debt security also includes facilities where the credit risk has improved and security has been reclassified from Stage 2.

Stage 2: When a debt instrument has shown a significant increase in credit risk since origination, the Bank recognizes an allowance for the lifetime ECL. Stage 2 debt instrument also includes facilities where the credit risk has improved and the instrument has been reclassified from Stage 3.

Stage 3: When a debt instrument is considered as credit impaired, the Bank recognizes an allowance for the lifetime ECL.

The Bank's credit risk assessment and measurement are performed based on groups of loan portfolio segmented by product type.

4.2.2 Significant Increase in Credit Risk

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative and qualitative criteria have been met. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparties.

The Bank considers a financial instrument to have experienced a SICR when certain criteria have been met. The Bank's criteria are guided by the PFRS 9 three-stage model impairment based on changes in credit quality since initial recognition. All current account which has no history of default payment is classified into Stage 1. All past due accounts are classified into Stage 2 except those accounts that already exceed 90 days past due which will be classified into Stage 3. In addition, an account or borrower possess an SICR whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, such as where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

The tables in the succeeding page summarize loan classification per BSP Revised Appendix 15 aligned with the PFRS 9 three-stage model impairment based on changes in credit quality since initial recognition:

General Rule

Stage 1	Stage 2	Stage 3
Pass	Especially Mentioned Substandard – Unimpaired*	Substantial – Impaired Doubtful Loss
(Performing)	(Underperforming)	(Non-performing) **

**Substandard accounts that are unpaid or with missed payment of less than 90 days*
***Exposures that exhibit the characteristics for classified accounts described under MORB Section 143*

Individually Assessed Credit Exposures (Unsecured)

Days Unpaid/with Missed Payment	Appendix 15 Classification	PFRS 9 Stage
31 – 90 days	Substandard (unimpaired)	2
91 – 120 days	Substandard (impaired)	3
121 – 180 days	Doubtful	3
181 days and over	Loss	3

Individually Assessed Credit Exposures (Secured)

Days Unpaid/with Missed Payment	Appendix 15 Classification	PFRS 9 Stage
31 – 90 days	Substandard (unimpaired)	2
91 – 180 days	Substandard (impaired)	3
181 – 365 days	Substandard (impaired)	3
Over 1 year – 5 years	Doubtful	3
Over 5 years	Loss	3

Collectively Assessed Credit Exposures (Unsecured)

Days Unpaid/with Missed Payment	Appendix 15 Classification	PFRS 9 Stage
1 – 30 days	Especially mentioned	2
31 – 60 days / 1st restructuring	Substandard	2 or 3***
61 – 90 days	Doubtful	3
91 days and over / 2nd restructuring	Loss	3

****Depends whether the account is classified as underperforming (Stage 2) or non-performing (Stage 3)*

Collectively Assessed Credit Exposures (Secured)

Days Unpaid/with Missed Payment	Appendix 15 Classification	PFRS 9 Stage
31 – 90 days	Substandard (unimpaired)	2
91 – 120 days	Substandard (impaired)	3
121 – 365 days	Substandard (impaired)	3
Over 1 year – 5 years	Doubtful	3
Over 5 years	Loss	3

A grouping of exposures for collective assessment is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous.

The Bank transfers the exposures from Stage 3 to Stage 1 when there is a sufficient evidence to support full collection. Exposures should exhibit both quantitative and qualitative indicators of probable collection prior to transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interests and/or principal are received for at least six months [see also Note 4.2.9(a)]. The Bank observes the following guidelines for exposures that were restructured:

(a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one year probation period (i.e., six months in Stage 3 before transferring to Stage 2, and another six months in Stage 2 before transferring to Stage1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after 12 months); and,

(b) Restructured loans accounts classified as Stage 1 prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six-month rule.

Certain qualitative criteria are also being considered by the Bank in assessing SICR. These are but not limited to: actual or expected short-term delays in payments which is normally not later than 30 days (cure period), extension to the terms granted, previous arrears within the last 12 months and significant adverse changes in business, financial and/or economic conditions in which the borrowers operate (e.g., calamities requiring BSP relief program), and other backstop indicators.

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Bank's Credit Committee guided by its Credit Risk Policy Manual.

4.2.3 Inputs, Assumptions and Techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of PD, EAD and LGD. The ECL is determined by projecting the PD, LGD, and EAD for each future period and for each collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month).

PD for the Bank's loan portfolio was estimated through Delinquency Loss Rates (DLR) using the borrower's days past due (DPD) information and movement, which is referenced with the BSP Revised Appendix 15. To have more granular and accurate estimation of PD, a borrower's monthly delinquency bucket movement is traced, instead of annual delinquency bucket movement.

The delinquency bucket movement of the accounts was properly traced in order to estimate the changes of a borrower to default. Account-level roll rates, also known as Markov chain model, use transition matrices to measure the movements in delinquency buckets in order to estimate PD. Account-level roll rates predict the future outcome based on present state.

The Markov transition or migration matrix is a square matrix that describe the probabilities of moving from one state to another in a dynamic system.

The LGD is determined based on the factors which impact the recoveries made post default. LGD is primarily based on collateral type and projected collateral values, historical discounts to market value due to repossession, time of repossession and recovery costs observed.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD, and LGD.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis.

4.2.4 Overlay of Forward-looking Information in the Measurement of ECL

The calculation of ECL incorporates forward-looking information (FLI). The Bank has performed historical analysis and identified the key economic value impacting credit risk and ECL for the loan portfolio.

These economic variables and their associated impact on the PD, EAD and LGD. Judgment has also been applied in this process. Forecast of these economic variables (the Base Economic Scenario) are provided by the Bank's Credit Risk Officer on an annual basis and provide the best estimate view of the economy over the future period. The impact of these economic variables has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Bank also provided other possible scenarios along with scenario weightings to capture the possibilities other best and worst case scenarios. As of December 31, 2022 and 2021, the weighting assigned to each economic scenario were as follows:

Base	Upside	Downside
50%	25%	25%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to high degree of inherent uncertainty and therefore actual outcomes may significantly be different from those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearity and asymmetries with the Bank's loan portfolio to establish scenarios are appropriately representative of possible scenarios.

In 2022 and 2021, consumer price index (CPI) was used for the loan portfolio given its significant coefficient or impact on the borrowers' ability to meet contractual repayments.

Other FLI considerations not otherwise incorporated, such as the impact of any regulatory, legislative, natural disasters, or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Set out in the succeeding page are the changes to the ECL allowance as at 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 assumption		**Increase in assumption**		**Decrease in assumption**
2022					
CPI growth rate	**+/ - 1.00%**	**P**	**142,773**	**(P**	**142,773)**
2021					
CPI growth rate	+/ - 1.00%	P	434,298	(P	433,975)

Set out below are the changes in the ECL allowance as at December 31, 2022 and 2021 that would result from reasonably possible changes in the weightings determined for each of the economic scenarios:

		2022 Impact on ECL Increase (Decrease)		2021 Impact on ECL Increase (Decrease)
60-20-20 scenario	**P**	**14,917**	P	57,080
20-40-40 scenario	**(**	**44,751)**	(	161,470)
Base case scenario		**74,585**		288,817

Each sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. These analyses may not be representative of the actual change in the ECL allowance as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

4.2.5 Impact of COVID-19 on Measurement of ECL

In response to COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited and recalibrated. The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.2.3. As of December 31, 2022 and 2021, the expected impacts of COVID-19 have been reasonably captured using the Bank's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology used in the prior years).

The BAU ECL methodology have been structured and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were recalibrated in response to COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Bank's measurement of ECL have remained consistent with the prior periods. The Bank focused on supporting customers who are experiencing (i.e., those availing of reliefs) and about to experience financial difficulties (i.e., those with reprieved business operations) as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest).

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

4.2.6 Credit Risk Exposure

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	**P 593,426,159**	**P 1,469,506,812**	**P -**	**P 593,426,159**
2021				
Loans and discounts	P 561,443,429	P 1,441,625,185	P -	P 561,443,429

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

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts	**P 62,800,297**	**P 881,704,087**	**P -**	**P 62,800,297**
2021				
Loans and discounts	P 104,271,645	P 292,063,928	P -	P 104,271,645

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 cost as of December 31:

	Notes	2022	2021
Cash and other cash items	7	**P 27,376,179**	P 27,038,297
Due from BSP	7	**26,271,043**	36,270,708
Due from other banks	7	**138,211,707**	62,849,381
Investment securities at amortized cost	8.1	**428,731,277**	430,630,831
Advance deposits	12	**1,943,531**	1,720,000
		P 622,533,737	P 558,509,217

Investment securities at amortized cost includes government and corporate bonds. These are held by financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

The Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Hence, no significant credit risk is anticipated for this account.

The Bank is able to manage the credit risk arising from due from other banks by ensuring that the banks where these financial assets are invested in of high reputation and good credit standing. Portion of due from other banks are secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under R.A. No. 9576, *Amendment to Charter of Philippine Depository Insurance Corporation (PDIC).*

The Bank has no financial guarantee contracts and irrevocable loan commitments as at December 31, 2022 and 2021.

4.2.7 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The following tables provide information on how the significant changes in the gross carrying amount of financial instruments in 2022 and 2021 contributed to the changes in the allowance for ECL.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and Discounts				
Balance at January 1, 2022	P 315,244,092	P 141,927,692	P104,271,645	P 561,443,429
Transfers from:				
Stage 1	(76,046,843)	22,774,142	53,272,701	-
Stage 2	72,165,978	(88,279,640)	14,113,662	-
Stage 3	13,334,198	94,779,126	(108,113,324)	-
New financial assets originated	189,646,989	5,756,219	-	195,403,208
Derecognition of financial assets	(161,928,134)	(747,957)	(744,387)	(163,420,478)
Balance at December 31, 2022	**P 352,416,280**	**P 178,209,582**	**P 62,800,297**	**P 593,426,159**
Other Receivables				
Balance at January 1, 2022	P 41,731,632	P -	P -	P 41,731,632
New financial assets originated	-	-	-	-
Derecognition of financial assets	(499,658)	-	-	(499,658)
Balance at December 31, 2022	**P 41,231,974**	**P -**	**P -**	**P 41,231,974**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and Discounts				
Balance at January 1, 2021	P 364,420,537	P 113,174,431	P 71,010,088	P 548,605,056
Transfers from:				
Stage 1	(63,079,116)	38,953,386	24,125,730	-
Stage 2	88,988,215	(115,283,257)	26,295,042	-
Stage 3	53,785,930	22,460,962	(76,246,892)	-
New financial assets originated	132,709,017	129,008,852	97,541,112	359,258,981
Derecognition of financial assets	(261,580,491)	(46,386,682)	(38,453,435)	(346,420,608)
Balance at December 31, 2021	P 315,244,092	P 141,927,692	P104,271,645	P 561,443,429

	2021			
	Stage 1	Stage 2	Stage 3	Total
Other Receivables				
Balance at January 1, 2021	P 44,401,407	P -	P -	P 44,401,407
New financial assets originated	12,606,835	-	-	12,606,835
Derecognition of financial assets	(15,276,610)	-	-	(15,276,610)
Balance at December 31, 2021	P 41,731,632	P -	P -	P 41,731,632

The following table explain the changes in the ECL allowance for Loans and Other Receivables between the beginning and the end of December 31, 2022 and 2021 due to above factors:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL allowance as at January 1, 2022	P 3,208,904	P 4,967,236	P22,780,959	P 30,957,099
Transfers from:				
Stage 1	(760,468)	227,741	532,727	-
Stage 2	721,660	(8,627,964)	7,906,304	-
Stage 3	1,556,454	7,566,955	(9,123,409)	-
New financial assets originated	1,896,470	-	-	1,896,470
Financial assets derecognized or repaid during the year	-	-	(3,110,108)	(3,110,108)
ECL allowance as at December 31, 2022	**P 6,623,020**	**P 4,133,968**	**P18,986,473**	**P 29,743,461**
ECL allowance as at January 1, 2021	P 4,309,459	P 3,246,182	P19,338,047	P 26,893,688
Transfers from:				
Stage 1	(776,526)	385,383	391,143	-
Stage 2	1,664,643	(2,414,485)	749,842	-
Stage 3	3,961,244	1,641,151	(5,602,395)	-
New financial assets originated	1,501,390	786,033	2,879,595	5,167,018
Financial assets derecognized or repaid during the year	-	(19,395)	(567,552)	(586,947)
Net remeasurement of allowance	(7,451,306)	1,342,367	5,592,279	(516,660)
ECL allowance as at December 31, 2021	P 3,208,904	P 4,967,236	P22,780,959	P 30,957,099

Other classes of debt instruments have no material ECL allowance.

4.2.8 Write-off Policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity; and, where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. There were no outstanding contractual amounts of such assets written off in 2022 and 2021.

4.2.9 Modification of Financial Assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery.

Such restructuring activities include but not limited to extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more (see Note 4.2.2). The gross carrying amount of such assets held as at December 31, 2022 and 2021 amounts to P70.2 million and P92.0 million, respectively.

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

4.2.10 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans to borrower in the form of real estate mortgage and hold-out deposits. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated as deemed appropriate (i.e., generally at the time of credit renewal or at foreclosure event). Collateral is not usually held against cash and investment securities, and no such collateral was held at December 31, 2022 and 2021. Disposal of collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

An estimate of the fair value of collateral and other security enhancements held against loans and receivables is shown below.

	2022	2021
Against past due and impaired –		
Properties	**P 264,511,226**	P 253,860,598
Against neither past due nor impaired:		
Properties	**1,204,995,586**	1,187,764,587
Hold-out deposits	**7,885,619**	6,646,466
	P 1,477,392,431	P 1,448,271,651

4.3 Liquidity Risk

The Bank's policy is to maintain adequate liquidity at all times. This policy aims to honor all cash requirements on an ongoing basis and to avoid raising funds above market rates or through the forced sale of assets.

Liquidity risk is the risk that sufficient funds may not be available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquid financial assets at all times to meet obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses that would be detrimental to the Bank's operations. The Bank manages liquidity risk by maintaining a portfolio of highly liquid financial assets of appropriate quality to ensure short-term funding requirements are met regularly and in the event of unforeseen interruption of cash flows. Specifically, the Bank's liquidity risk management is focused on the matching of the maturities of its liquid financial assets and short-term liabilities. In addition, the Bank also seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when this arises.

The settlement groupings of the Bank's financial assets and financial liabilities as of December 31 are as follows:

	2022			
	Within One Year	Beyond One Year But Less Than Five Years	Beyond Five Years	Total
Financial assets:				
Cash and other cash items	P 27,376,179	P -	P -	P 27,376,179
Due from BSP	26,271,043	-	-	26,271,043
Due from other banks	138,211,707	-	-	138,211,707
Loans and other receivables - net	30,037,331	266,209,016	308,584,590	604,830,937
Investment securities – net	271,116,226	125,598,258	90,021,793	486,736,277
Advance deposits	1,481,348	462,183	-	1,943,531
	494,493,834	392,269,457	398,606,383	1,285,369,674
Financial liabilities:				
Deposits	1,206,115,273	58,670,665	-	1,264,785,938
Accrued interests and other taxes	1,956,431	-	-	1,956,431
Other liabilities	22,939,818	-	-	22,939,818
	1,231,011,522	58,670,665	-	1,289,682,187
Net Periodic Surplus (Gap)	**(736,517,688)**	**333,598,792**	**398,606,383**	**(4,312,513)**
Cumulative Total Gap	**(P 736,517,688)**	**(P 402,918,896)**	**(P 4,312,513)**	**P -**

	2021			
	Within One Year	Beyond One Year But Less Than Five Years	Beyond Five Years	Total
Financial assets:				
Cash and other cash items	P 27,038,297	P -	P -	P 27,038,297
Due from BSP	36,270,708	-	-	36,270,708
Due from other banks	62,849,381	-	-	62,849,381
Investment securities - net	171,899,512	207,650,204	95,586,115	475,135,831
Loans and other receivables – net	39,727,254	179,689,384	352,736,559	572,153,197
Advance deposits	-	1,720,000	-	1,720,000
	337,785,152	389,059,588	448,322,674	1,175,167,414
Financial liabilities:				
Deposits	1,096,411,842	64,263,641	-	1,160,675,483
Accrued interests and other taxes	2,643,505	-	-	2,643,505
Other liabilities	22,216,911	69,725	-	22,286,636
	1,121,272,258	64,333,366	-	1,185,605,624
Net Periodic Surplus (Gap)	(783,487,106)	324,726,222	448,322,674	(10,438,210)
Cumulative Total Gap	(P 783,487,106)	(P 458,760,884)	(P 10,438,210)	P -

The Bank continually assesses business opportunities and strategies where it can effectively and sufficiently match its short-term funding requirements with adequate liquid assets through taking customers' deposits with longer maturities and discounting loans to other financial institutions with repayments terms enough to cover credit demands of customers.

4.4 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 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR is analyzed below (amounts in thousands except MLR figure).

	2022	2021
Eligible stock of liquid assets	**P 567,682**	P 565,373
Total qualifying liabilities	**1,209,865**	1,212,091
MLR	**46.92%**	46.64%

4.5 *Operational Risk*

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, or may lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage this risk. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the maintenance of internal audit.

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 statements of financial position are shown below and in the succeeding page.

	2022		2021	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets:				
At amortized cost:				
Cash and other cash items	**P 27,376,179**	**P 27,376,179**	P 27,038,297	P 27,038,297
Due from BSP and other banks	**164,482,750**	**164,482,750**	99,120,089	99,120,089
Loans and other receivables – net	**604,830,937**	**801,796,972**	572,153,197	873,898,289
Investment securities	**428,731,277**	**428,731,277**	430,630,831	430,630,831
Advance deposits	**1,943,531**	**1,943,531**	1,720,000	1,720,000
At FVOCI –				
Investment securities	**58,005,000**	**58,005,000**	44,505,000	44,505,000
	P 1,285,369,674	**P 1,482,335,709**	P 1,175,167,414	P 1,476,912,506
Financial liabilities:				
At amortized cost:				
Deposit liabilities	**P 1,264,785,938**	**P 1,265,097,876**	P 1,160,675,483	P 1,164,834,365
Accrued interests and other taxes	**1,956,431**	**1,956,431**	2,643,505	2,643,505
Other liabilities	**22,939,818**	**22,939,818**	22,286,636	22,286,636
	P 1,289,682,187	**P 1,289,994,125**	P 1,185,605,624	P 1,189,764,506

5.2 *Offsetting of Financial Assets and Financial Liabilities*

The following financial assets of the Bank with amounts presented in the statement of financial position as of December 31, 2022 and 2021 are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statement of financial position			Related amounts not set off in the statement of financial position		
	Financial assets	Financial liabilities set off	Net amount presented in the statement of financial position	Financial instruments	Hold-out Deposits	Net amount
2022						
Loans and receivables – net	**P 604,830,937**	**P -**	**P 604,830,937**	**P 604,830,937**	**(P 7,885,619)**	**P 565,438,672**
2021						
Loans and receivables – net	P 572,153,197	P -	P 572,153,197	P 572,153,197	(P 6,297,488)	P 565,855,709

There were no financial liabilities with net amounts presented in the statement of financial position that are subject to offsetting, enforceable master netting arrangements and similar agreements in both years.

For the financial assets subject to enforceable master netting arrangements or similar arrangements shown in the preceding table, such as hold-out deposits against loans and receivables, each agreement 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 an election, financial assets and financial 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 levels in the fair value hierarchy are presented below and in the succeeding page.

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

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

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

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market 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 Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding page 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
2022				
Financial assets:				
Cash and other cash items	P 27,376,179	P -	P -	P 27,376,179
Due from BSP and other banks	164,482,750	-	-	164,482,750
Loans and receivables – net	-	-	801,796,972	801,796,972
Investment securities	-	-	428,601,277	428,601,277
Advance deposits	-	-	1,943,531	1,943,531
	P 191,858,929	**P -**	**P 1,232,341,780**	**P 1,420,200,709**
Financial liabilities:				
Deposit liabilities	P -	P -	P 1,265,097,876	P 1,265,097,876
Accrued interests and other taxes	-	-	1,956,431	1,956,431
Other liabilities	-	-	22,939,818	22,939,818
	P -	**P -**	**P 1,289,994,125**	**P 1,289,994,125**
2021				
Financial assets:				
Cash and other cash items	P 27,038,297	P -	P -	P 27,038,297
Due from BSP and other banks	99,120,089	-	-	99,120,089
Loans and receivables – net	-	-	873,898,289	873,898,289
Investment securities	-	-	430,630,831	430,630,831
Advance deposits	-	-	1,720,000	1,720,000
	P 126,158,386	P -	P 1,306,249,120	P 1,432,407,506
Financial liabilities:				
Deposit liabilities	P -	P -	P 1,164,834,365	P 1,164,834,365
Accrued interests and other taxes	-	-	2,643,505	2,643,505
Other liabilities	-	-	22,286,636	22,286,636
	P -	P -	P 1,189,764,506	P 1,189,764,506

For financial assets and financial liabilities, with fair values included in Level 1,management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3 are not traded in an active market and therefore, is determined by calculating the expected cash flows of the underlying net asset base of the instrument.

The fair values of the financial assets and financial liabilities included in Level 3 are not traded in an active market and therefore, is determined by calculating the expected cash flows of the underlying net asset base of the instrument.

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

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

6.3 Financial Instruments Measured at Fair Value

The Bank has financial assets at FVOCI amounting to P58.0 million and P44.5 million as of December 31, 2022 and 2021, respectively, which are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of each reporting period. There were no financial liabilities measured at fair value in both years.

6.4 Fair Value Measurement for Non-financial Assets

As at December 31, 2022 and 2021, the fair value of investment properties amounting to P335.6 million and P249.0 million, respectively, are included in Level 3.

The fair values of the Bank's non-financial assets are determined on the basis of the appraisals performed by an internal appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. 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 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. The fair values discussed above, as determined by the appraisers, were used by the Bank in determining the fair value of the Investment Properties.

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. The Level 3 fair value of motorcycles was derived based on the physical condition of the properties as assessed by an internal appraiser, adjusted for depreciation and damage cost.

There has been no change to the valuation techniques used by the Bank during the period for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2022 and 2021.

7. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	Note	**2022**	2021
Cash and other cash items	7.1	**P 27,376,179**	P 27,038,297
Due from BSP	7.2	**26,271,043**	36,270,708
Due from other banks	7.3	**138,211,707**	62,849,381
		P 191,858,929	P 126,158,386

7.1 Cash and Other Cash Items

These represent the total amount of cash in the Bank's vault in the form of Philippine currency and checks and other cash items received after the cut-off time until the close of the regular banking hours.

7.2 Due from BSP

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements. The composition of the required reserves shall be kept in the form of deposits placed in banks' demand deposit accounts with the BSP.

As at December 31, 2022 and 2021, the Bank has no overnight borrowings or reverse repurchase facility, overnight lending or repurchase facility, or special deposits with BSP that may earn additional interest income from the Bank.

7.3 Due from Other Banks

Due from other banks maintained under savings, time, and demand accounts are as follows:

	2022	2021
Commercial banks:		
Savings	**P 9,499,743**	P 6,571,322
Demand	**21,510,719**	3,297,502
Time	**28,207,004**	13,000,204
	59,217,466	22,869,028
Government banks –		
Demand	**78,994,241**	39,980,353
	P 138,211,707	P 62,849,381

Interest rates on these deposits range from 0.05% to 3.75% per annum in 2022 and 2021. Interest earned on deposit with other banks amounted to P0.7 million and P0.2 million in 2022 and 2021, respectively, as Interest Income on Due from Other Banks in the statements of comprehensive income.

8. INVESTMENT SECURITIES

This account is comprised of:

	Note	2022	2021
Investment securities at amortized cost	8.1	**P 428,731,277**	P 430,630,831
Investment securities at FVOCI	8.2	**58,005,000**	44,505,000
		P 486,736,277	P 475,135,831

8.1 Investment Securities at Amortized Cost

The composition of these financial assets as of December 31, 2022 and 2021 as to type of investment is shown below.

	2022	2021
Government securities	**P 418,731,277**	P 420,630,831
Corporate debt securities	**10,000,000**	10,000,000
	P 428,731,277	P 430,630,831

These securities are carried at amortized cost since the Bank intends to hold these securities to collect contractual cash flows.

The reconciliation of the carrying amounts of investments securities at amortized cost are as follows:

	2022	2021
Balance at beginning of year	**P 430,630,831**	P 357,551,341
Additions	**238,962,880**	218,076,837
Maturities	**(240,912,601)**	(139,573,392)
Net amortization of discounts (premiums)	**50,167**	(5,423,955)
Balance at end of year	**P 428,731,277**	P 430,630,831

Interest income generated from these investments, including amortization of premiums and discounts, amounted to P14.3 million and P8.3 million in 2022 and 2021, respectively, and are shown as Interest Income on Investment Securities in the statements of comprehensive income. Interest rates on these investments ranges from 1.30% to 6.40% per annum in 2022 and 1.10% to 6.40% per annum in 2021.

8.2 Investment Securities at Fair Value Through Other Comprehensive Income

Investment securities at FVOCI as of December 31, 2022 and 2021 consist of unquoted equity securities amounting to P58.0 million and P44.5 million, respectively.

The Bank has designated the above equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVTPL. Unquoted equity securities pertain to golf club shares.

As of December 31, 2022 and 2021, the fair values of the Bank's golf club shares were determined based on the latest club share quotes from the leading and largest broker of proprietary golf club shares in the country (see Note 6.3).

Fair value changes in the Bank's financial assets at FVOCI amounted to P13.5 million gain and P10.5 million gain in 2022 and 2021, respectively, which are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently to profit or loss.

9. LOANS AND OTHER RECEIVABLES

This account is comprised of:

	2022	2021
Loans and discounts	**P 593,426,159**	P 561,443,429
Unearned service fees	**(83,735)**	(64,765)
Allowance for impairment	**(23,263,400)**	(26,834,010)
	570,079,024	534,544,654
Other receivables:		
Sales contract receivables	**26,586,241**	34,171,091
Accrued interest receivable	**7,445,903**	5,375,541
Accounts receivables	**7,199,830**	2,185,000
	41,231,974	41,731,632
Allowance for impairment	**(6,480,061)**	(4,123,089)
	34,751,913	37,608,543
	P 604,830,937	P 572,153,197

Sales contract receivables represent the balance of the selling price of assets owned or acquired under an agreement wherein the title to the said assets shall only be transferred to the buyer upon full payment.

Annual interests earned for loans and sales contract receivables range from 6.06% to 20.00% in 2022 and 6.25% to 18.00% in 2021. All other receivables (e.g., accounts receivable) are noninterest-bearing, unsecured and are generally payable upon demand. The total interest earned on loans and other receivables amounted to P67.5 million and P67.6 million in 2022 and 2021, respectively, and is 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 reviewed for impairment. Certain loans and receivables were found to be impaired, and provisions have been recognized 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 30,957,099**	P 26,893,688
Provision for credit losses	**1,976,254**	4,172,406
Reclassification	**(3,189,892)**	(108,995)
Balance at end of year	**P 29,743,461**	P 30,957,099

Reclassification of allowance pertains to the transfer of allowance to investment properties as a result of foreclosures.

The breakdown of allowance for impairment on loans and receivables is shown below.

	2022	2021
Loans and discounts	**P 23,263,400**	P 26,834,010
Sales contract receivable	**6,480,061**	4,123,089
	P 29,743,461	P 30,957,099

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 are shown below.

	Land	**Building**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**IT Equipment**	**Leasehold Rights and Improvements**	**Right-of-Use Assets**	**Total**
December 31, 2022								
Cost	P 32,192,457	P 22,090,677	P 13,408,988	P 14,736,450	P 791,516	P 5,638,884	P 16,769,753	P 105,628,725
Accumulated depreciation and accumulated	-	(13,693,783)	(9,181,841)	(12,859,458)	(791,516)	(5,588,257)	(5,793,159)	(47,908,015)
Net carrying amount	**P 32,192,457**	**P 8,396,894**	**P 4,227,147**	**P 1,876,992**	**P -**	**P 50,627**	**P 10,976,594**	**P 57,720,710**
December 31, 2021								
Cost	P 31,726,000	P 22,090,677	P 12,658,988	P 14,474,990	P 791,516	P 9,198,868	P 3,494,791	P 94,435,830
Accumulated depreciation and accumulated	-	(12,614,974)	(10,251,006)	(12,997,221)	(791,516)	(8,657,935)	(2,820,202)	(48,132,854)
Net carrying amount	P 31,726,000	P 9,475,703	P 2,407,982	P 1,477,769	P -	P 540,933	P 674,589	P 46,302,976
January 1, 2021								
Cost	P 31,726,000	P 22,090,677	P 12,658,988	P 13,718,594	P 791,516	P 9,554,366	P 3,494,791	P 94,034,932
Accumulated depreciation and accumulated	-	(11,536,165)	(8,481,753)	(12,447,296)	(791,516)	(8,240,424)	(2,311,868)	(43,809,022)
Net carrying amount	P 31,726,000	P 10,554,512	P 4,177,235	P 1,271,298	P -	P 1,313,942	P 1,182,923	P 50,225,910

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

	Land	Building	Transportation Equipment	Furniture, Fixtures and Equipment	IT Equipment	Leasehold Rights and Improvements	Right-of-Use Assets	Total
Balance at January 1, 2022, net of accumulated depreciation and impairment	P31,726,000	P 9,475,703	P 2,407,982	P 1,477,769	P -	P 540,933	P 674,589	P 46,302,976
Additions	466,457	-	3,068,000	1,577,401	-	-	13,274,962	18,386,820
Depreciation and amortization charges for the year	-	(1,078,809)	(1,248,835)	(1,178,178)	-	(490,306)	(2,972,958)	(6,969,086)
Balance at December 31, 2022, net of accumulated depreciation and amortization	**P32,192,457**	**P 8,396,894**	**P 4,227,147**	**P 1,876,992**	**P -**	**P 50,627**	**P 10,976,594**	**P 57,720,710**
Balance at January 1, 2021, net of accumulated depreciation and impairment	P31,726,000	P 10,554,512	P 4,177,235	P 1,271,298	P -	P 1,313,942	P 1,182,923	P 50,225,910
Additions	-	-	-	1,286,703	-	-	-	1,286,703
Depreciation and amortization charges for the year	-	(1,078,809)	(1,769,253)	(1,080,232)	-	(773,009)	(508,334)	(5,209,637)
Balance at December 31, 2021, net of accumulated depreciation and amortization	P31,726,000	P 9,475,703	P 2,407,982	P 1,477,769	P -	P 540,933	P 674,589	P 46,302,976

In 2022 and 2021, certain fully depreciated assets with acquisition cost of P21.5 million are still being used in operations.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this BSP requirement.

The Bank leases office space for its various branches. With the exception of short-term leases each lease, in respect of right-of-use asset, is presented in the statement of financial position as part of Bank Premises, Furniture, Fixtures, and Equipment and in respect of the related obligation as lease liability under Other Liabilities. Leases have terms ranging from two to 10 years with renewal options and annual escalation rates up to 5.00% in both 2022 and 2021.

Each lease imposes a restriction that the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. 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. The Bank must keep those premises in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The use of extension and termination options gives the Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Bank's strategy and the economic benefits of exercising the option exceeds the expected overall cost.

11. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land and buildings acquired through foreclosure of outstanding loans by the borrowers and parcels of land and buildings that are held for capital appreciation.

The gross carrying amounts and accumulated impairment losses of investment properties as of beginning and end of 2022 and 2021 follow:

	Land	Buildings	Total
December 31, 2022			
Cost	P 165,678,246	P 14,090,705	P 179,768,951
Accumulated depreciation	-	(178,348)	(178,348)
Accumulated impairment	(816,056)	-	(816,056)
Net carrying amount	**P 164,862,190**	**P 13,912,357**	**P 178,774,547**
December 31, 2021			
Cost	P 164,974,544	P 1,644,013	P 166,618,557
Accumulated depreciation	-	(271,466)	(271,466)
Accumulated impairment	(816,056)	-	(816,056)
Net carrying amount	P 164,158,488	P 1,372,547	P 165,531,035
January 1, 2021			
Cost	P 169,686,480	P 1,659,281	P 171,345,761
Accumulated depreciation	-	(259,793)	(259,793)
Accumulated impairment	(816,056)	-	(816,056)
Net carrying amount	P 168,870,424	P 1,399,488	P 170,269,912

A reconciliation of the carrying amounts at the beginning and end of 2022 and 2021 of the Bank's investment properties is shown below.

	2022	2021
Balance at beginning of year	**P 165,531,035**	P 170,269,912
Additions	**19,808,784**	1,074,189
Disposals	**(6,314,477)**	(5,650,443)
Depreciation	**(250,795)**	(162,623)
Balance at end of year	**P 178,774,547**	P 165,531,035

As of December 31, 2022 and 2021, there were no foreclosed investment properties subject to redemption period by the borrowers.

Direct operating expenses on these investment properties amounted to P2.3 million and P1.3 million in 2022 and 2021, respectively, and are recorded as Acquired asset expense under Operating Expenses in the statements of comprehensive income (see Note 18.2).

The gain on sale of investment properties amounting to P3.0 million and P4.6 million in 2022 and 2021, respectively, is presented as Gain on sale of properties under Other Income in the statements of comprehensive income (see Note 18.1).

The Bank recognized rental income from investment properties amounting to P1.0 million and P0.8 million in 2022 and 2021, respectively, which is presented as part of Others under Other Income in the statements of comprehensive income (see Note 18.1).

The total estimated fair values of the investment properties, which were determined by the Bank's external and internal appraisers, amounted to P335.6 million and P249.0 million as of December 31, 2022 and 2021, respectively (see Note 6.4).

12. OTHER RESOURCES

This account consists of:

	Note	2022	2021
Prepaid expenses	12.1	**P 2,038,190**	P 2,371,692
Others	12.2	**2,550,833**	2,172,942
		P 4,589,023	P 4,544,634

12.1 Prepaid Expenses

The Bank's prepaid expense comprises of prepayments for insurance, health care, uniforms as well as prepaid expense for real property taxes.

12.2 Others

Others include advance deposits, stationeries, and supplies. Advance deposits include refundable deposits for the lease of the various branches of the Bank from several parties.

13. DEPOSIT LIABILITIES

The breakdown of deposit liabilities per classification follows:

	2022	2021
Savings	**P 848,035,242**	P 758,715,673
Time	**406,013,216**	398,829,313
Demand	**10,737,480**	3,130,497
	P 1,264,785,938	P 1,160,675,483

Deposit liabilities are in the form of savings, demand and time deposits. Annual interest rates range from 0.06% to 2.75% and 0.25% to 10.00% in 2022 and 2021, respectively.

Interest expense on deposit liabilities amounted to P7.0 million and P10.0 million in 2022 and 2021, respectively, and is shown as part of Interest Expense in the statements of comprehensive income. Interest which remained unpaid amounted to P0.3 million and P1.0 million as of December 31, 2022 and 2021, respectively, and is presented as Accrued interest expense under the Accrued Interests and Other Taxes account in the statements of financial position (see Note 14). Deposit liabilities are stated at amounts that they are expected to be paid which approximate their market value.

Under existing BSP regulations, rural banks are subject to statutory and liquidity reserves equivalent to 2.0% of demand, savings and time deposits in 2022 and 2021 (BSP Circular No. 1092, Series of 2020). Liquidity and statutory reserves pertain to Due from BSP amounting to P26.3 million and P36.3 million as of December 31, 2022 and 2021, respectively (see Note 7.2). The Bank is in compliance with such regulations as of December 31, 2022 and 2021.

14. ACCRUED INTERESTS AND OTHER TAXES

The composition of this account follows:

	Note	2022	2021
Accrued expenses		**P 1,644,493**	P 1,680,548
Withholding taxes payable		**699,664**	1,120,774
Accrued interest expense	13	**311,938**	962,957
		P 2,656,095	P 3,764,279

The accrued expense of the Bank is composed of accruals for the service of their external auditor, fringe benefits of the employees, PDIC insurance and utilities.

15. OTHER LIABILITIES

This account consists of:

	Note	2022	2021
Accounts payable		**P 21,354,367**	P 20,671,475
Lease liability	21.3	**11,529,106**	1,101,901
SSS, medicare and employee premium		**104,625**	89,847
Others		**108,590**	513,260
		P 33,096,688	P 22,376,483

Accounts payable of the Bank normally includes payments insurances and payables for real and other properties redemption.

Others include overages and miscellaneous expenses for the Bayad Center. These are payments of customers for the bills, using Bayad Center, which are to be transferred by the Bank to Bayad Center's account.

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

	2022	2021
Balance at beginning of year	**P 1,101,901**	P 1,697,568
Cash flows from financing activities –		
Repayments of lease liabilities	**(2,753,712)**	(595,667)
Non-cash financing activities:		
Additions	**13,274,962**	-
Gain on rent concession	**(94,046)**	-
Balance at end of year	**P 11,529,106**	P 1,101,901

The total interest expense incurred on the lease liability amounted to P1.2 million in both 2022 and 2021, and is presented as part of Interest Expense in the statements of comprehensive income.

As at December 31, 2022 and 2021, the Bank has no committed leases which had not yet commenced.

The Bank has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P3.2 million and P4.6 million in 2022 and 2021, respectively, and is presented as Rental under Operating Expenses in the statements of comprehensive income (see Note 18.2).

The Bank is committed to short-term leases, and the total commitment amounted to P3.9 million and P1.3 million as of December 31, 2022 and 2021, respectively.

The undiscounted maturity analysis of lease liabilities at December 31, 2022 and 2021 is 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 1,352,280	P 1,419,894	P 1,490,888	P 1,565,433	P 7,243,770	P 13,072,265
Finance charges	(326,239)	(294,654)	(260,058)	(222,259)	(439,949)	(1,543,159)
Net Present Value	**P 1,026,041**	**P 1,125,240**	**P 1,230,830**	**P 1,343,174**	**P 1,129,440,133**	**P 11,529,106**
December 31, 2021						
Lease payments	P 1,561,462	P 74,628	P -	P -	P -	P 1,636,091
Finance charges	(529,286)	(4,903)	-	-	-	(534,190)
Net Present Value	P 1,032,176	P 69,725	P -	P -	P -	P 1,101,901

16. MATURITY PROFILE OF ASSETS AND LIABILITIES

The following table presents the assets and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from statement of financial position date:

	2022			2021		
	Within 12 Months	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Assets – net:						
Cash and other cash items	**P 27,376,179**	**P -**	**P 27,376,179**	P 27,038,297	P -	P 27,038,297
Due from BSP	**26,271,043**	**-**	**26,271,043**	36,270,708	-	36,270,708
Due from other banks	**138,211,707**	**-**	**138,211,707**	62,849,381	-	62,849,381
Investment securities	**190,935,001**	**295,801,276**	**486,736,277**	171,899,512	303,236,319	475,135,831
Loans and other receivables	**15,264,580**	**589,566,357**	**604,830,937**	39,727,254	532,425,943	572,153,197
Other resources	**1,943,531**	**-**	**1,943,531**	-	1,720,000	1,720,000
	400,002,041	**885,367,633**	**1,285,369,674**	337,785,152	837,382,262	1,175,167,414
Non-financial Assets – net:						
Bank premises, furniture, fixtures, and equipment	**-**	**57,720,710**	**57,720,710**	-	46,302,976	46,302,976
Investment properties	**-**	**178,774,547**	**178,774,547**	-	165,531,035	165,531,035
Other resources	**2,645,492**	**-**	**2,645,492**	2,608,932	215,702	2,824,634
	2,645,492	**236,495,257**	**239,140,749**	2,608,932	212,049,713	214,658,645
	P 402,647,533	**P 1,121,862,890**	**P 1,524,510,423**	P 340,394,084	P 1,049,431,975	P 1,389,826,059
Financial Liabilities:						
Deposit liabilities	**P 1,213,526,474**	**P 51,259,464**	**P 1,264,785,938**	P 1,096,411,842	P 64,263,641	P 1,160,675,483
Accrued interests and other taxes	**1,956,431**	**-**	**1,956,431**	2,643,505	-	2,643,505
Other liabilities	**22,593,623**	**10,503,065**	**33,096,688**	22,306,758	69,725	22,376,483
	1,238,076,528	**61,762,529**	**1,299,839,057**	1,121,362,105	64,333,366	1,185,695,471
Non-financial Liabilities:						
Accrued interests and other taxes	**699,664**	**-**	**699,664**	1,120,774	-	1,120,774
Income tax payable	**2,615,774**	**-**	**2,615,774**	3,488,643	-	3,488,643
Post-employment benefit obligation	**-**	**3,878,352**	**3,878,352**	-	2,455,240	2,455,240
Deferred tax liabilities – net	**-**	**4,132,908**	**4,132,908**	-	182,023	182,023
	3,315,438	**8,011,260**	**11,326,698**	4,609,417	2,637,263	7,246,680
	P 1,241,391,966	**P 69,773,789**	**P 1,311,165,755**	P 1,125,971,522	P 66,970,629	P 1,192,942,151

17. CAPITAL FUNDS AND CAPITAL MANAGEMENT

17.1 Capital Management

(a) Regulatory Capital

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

In implementing current capital requirements, BSP requires the Bank to maintain a prescribed ratio of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk. Under the relevant provisions of the current BSP regulations, the regulatory capital is analyzed into two tiers.

Tier 1 Capital and Tier 2 Capital are defined as follows:

(i) 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 Directors, Officers, Stockholders and Related Interests (DOSRI);
   e. goodwill; and,
   f. deferred tax assets.

(ii) Tier 2 Capital includes:
   a. dividends distributable (if any);
   b. appraisal increment reserve – bank premises if any, as authorized by the Monetary Board of the BSP;
   c. deposit for stock subscription on common stock; and,
   d. general loan loss provision, limited to a maximum of 1.0% of credit risk-weighted assets.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

The Bank's regulatory capital position as of December 31 is presented as follows:

	2022	2021
Tier 1 Capital	**P 130,633,111**	P 127,080,338
Tier 2 Capital	**37,496,137**	33,699,067
Total regulatory qualifying capital	**P 168,129,248**	P 160,779,405

The breakdown of the Bank's risk-weighted assets as at December 31 as reported to the BSP follows:

	2022	2021
Credit risk-weighted assets	**P 950,932,140**	P 858,168,421
Operational risk-weighted assets	**120,755,304**	113,984,739
	P1,071,687,444	P 972,153,160
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**15.69%**	16.54%
Total Tier 1 expressed as percentage of total risk-weighted assets	**12.19%**	13.07%

The above capital ratios comply with the related BSP prescribed ratios.

(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 not falling below the minimum required for regulatory purposes. 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 RMC.

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. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

(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" (regulatory net worth) reported to the BSP, determined in the basis of regulatory accounting policies, which differ from the PFRS in some aspects (mainly in the recognition of deferred tax assets).

On August 24 2022, the Monetary Board of the BSP issued Circular No. 1151, *Amendments to the Minimum Capitalization of Banks,* increasing the minimum capital requirement for all rural banks. As mandated by this circular, the revised capitalization requirement applicable to the Rural Banks who has six (6) to ten (10) branches was increased from P100.0 million to P120.0 million. As at December 31, 2022 and 2021, the Bank is in compliance with such regulation.

17.2 Capital Stock

Capital stock consists of the following as at December 31, 2022 and 2021:

	Number of Shares		Amount
Common stock – P100 par value			
Authorized and subscribed – 1,300,000 shares	1,161,327	P	116,132,700
Preferred stock – P100 par value			
Authorized and issued – 200,000 shares	199,968		19,996,800
		P	**136,129,500**

Preferred shares of the Bank are non-voting, non-cumulative, non-participating, and redeemable at the option of the issuer.

As of December 31, 2022 and 2021, the Bank has 20 stockholders owning 100 or more shares each of the Bank's common shares.

17.3 Dividends

On July 12, 2022, the BOD approved the declaration of cash dividends of P5 per share for both common and preferred shares amounting to P5.8 million and P1.0 million, respectively, to be distributed to stockholders of record as of July 22, 2022 in proportion of their stockholdings. Additionally, on December 6, 2022, the BOD approved the declaration of cash dividends of P4 per share for both common and preferred shares amounting to P4.6 million and P0.8 million, respectively, to be distributed to stockholders of record as of December 12, 2022 in proportion of their stockholdings. Both dividends were fully paid in 2022.

On December 14, 2021, the BOD approved the declaration of cash dividends of P7 per share for both common and preferred shares amounting to P8.1 million and P1.4 million, respectively, to be distributed to stockholders of record as of December 14, 2021 in proportion of their stockholdings. The dividends were fully paid in 2021.

17.4 Regulatory 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 the accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed ECL on those exposures is less than the one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus.

17.5 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Financial assets at FVOCI	Defined Benefit Plan	Total
Balance as of January 1, 2022	P 28,350,000	(P 6,128,024)	P 22,221,976
Remeasurements of defined benefit post-employment plan (see Note 19.2)	-	(864,113)	(864,113)
Fair value gains on financial assets at FVOCI (see Note 8.2)	13,500,000	-	13,500,000
Other comprehensive income (losses) before tax	13,500,000	(864,113)	12,635,887
Tax expense (income)	(3,375,000)	216,028	(3,158,972)
Other comprehensive income (losses) after tax	10,125,000	(648,085)	9,476,915
Balance as of December 31, 2022	**P 38,475,000**	**(P 6,776,109)**	**P 31,698,891**
Balance as of January 1, 2021	P 19,110,000	(P 7,002,003)	P 12,107,997
Remeasurements of defined benefit post-employment plan (see Note 19.2)	-	476,237	476,237
Fair value gains on financial assets at FVOCI (see Note 8.2)	10,500,000	-	10,500,000
Other comprehensive income (losses) before tax	10,500,000	476,237	10,976,237
Tax expense	(1,260,000)	397,742	(862,258)
Other comprehensive income after tax	9,240,000	873,979	10,113,979
Balance as of December 31, 2021	P 28,350,000	(P 6,128,024)	P 22,221,976

18. OTHER INCOME AND OPERATING EXPENSES

Following are the details of these accounts:

18.1 Other Income

Details of Other Income as follows:

	Notes	**2022**	2021
Service charges		**P 6,608,807**	P 5,669,650
Gain on sale of properties	11	**2,966,243**	4,624,124
Others	11, 21.3	**8,572,154**	11,851,575
		P 18,147,204	P 22,145,349

Other income of the Bank is mainly composed of penalties, rental income and commissions from payments of life insurance.

18.2 Operating Expenses

Details of Operating Expenses as follows:

	Notes	2022	2021
Salaries and employee benefits	19.1	**P 27,393,341**	P 26,020,492
Depreciation and amortization	10, 11	**7,219,881**	5,372,260
Taxes and licenses		**3,965,364**	3,695,118
Insurance		**3,287,263**	2,881,704
Rental	15, 21.3	**3,213,869**	4,646,947
Outside services		**2,981,344**	2,410,523
Utilities		**2,909,683**	2,660,982
Acquired asset expense	11	**2,282,082**	1,290,357
Professional fees		**2,172,643**	1,769,600
Fuel and lubricants		**1,544,425**	1,373,793
Transportation and travel		**1,207,016**	771,047
Repair and maintenance		**1,121,339**	1,527,468
Supplies		**1,086,551**	1,426,131
Information and technology		**955,701**	712,371
Representation and entertainment		**867,830**	846,339
Membership and dues		**401,170**	394,223
Advertising and promotions		**380,268**	94,702
Supervision fees		**310,408**	296,958
Fees and commission		**288,197**	303,203
Donations and charitable contributions		**103,805**	62,115
Miscellaneous		**1,465,361**	7,046,383
		P 65,157,541	P 65,602,716

Miscellaneous pertain to deficiency taxes, IT expenses incurred relating to the implementation of the Bank's new accounting system, membership fees and dues, supervision fees, and training expenses.

19. EMPLOYEE BENEFITS

19.1 Employee Benefits Expense

Expenses recognized for employee benefits are analyzed below.

	Notes	2022	2021
Short-term employee benefits		**P 26,834,342**	P 25,109,977
Post-employment defined benefits	19.2	**558,999**	910,515
	18.2	**P 27,393,341**	P 26,020,492

19.2 Post-employment Defined Benefit

(a) Characteristics of the Post-employment Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The trustee bank managed the fund in coordination with the Bank's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees. The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for a late retirement after age 60 but not beyond age of 65, subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

In 2022, the Bank did not engage the service of an independent actuary to update the post-employment expense and obligation. The figures presented below are based on past actuarial assumptions and were adjusted based on the changes in management's assumptions. The management believes that the retirement benefit obligation as actuarially determined is not materially different with the amount recognized in the statements of financial position as there are no significant changes in the number of employees and other financial assumptions.

In 2021, however, the Company has engaged the service of an independent actuary to update the post-employment expense obligation. The 2021 figures presented below are based on actuarial valuation report in 2021 obtained from an independent actuary.

The amount of retirement benefit obligation recognized in the statements of financial position and presented as Post-employment Benefit Obligation account, is determined as follows:

	2022	2021
Present value of the obligation	**P 15,860,194**	P 14,688,318
Fair value of plan assets	**(11,981,842)**	(12,233,078)
	P 3,878,352	P 2,455,240

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

	2022	2021
Balance at beginning of year	**P 14,688,318**	P 16,015,126
Interest cost	**735,885**	632,597
Current service cost	**435,991**	758,550
Benefits paid	**-**	(1,826,272)
Actuarial gain due to changes in		
Experience adjustments	**-**	(785,290)
Demographic assumptions	**-**	(93,107)
Financial assumptions	**-**	(13,286)
Balance at end of year	**P 15,860,194**	P 14,688,318

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

	2022	2021
Balance at beginning of year	**P 12,233,078**	P 12,167,892
Interest income	**612,877**	480,632
Remeasurement – actuarial gains (losses) on plan assets	**(864,113)**	(415,446)
Balance at end of year	**P 11,981,842**	P 12,233,078

As at December 31, 2022 and 2021, the Bank's plan asset is primarily composed of investments in corporate bonds and unit investment trust funds.

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

	2022	2021
Reported in profit or loss:		
Current service cost	**P 435,991**	P 758,550
Net interest cost	**123,008**	151,965
	P 558,999	P 910,515
Reported in other comprehensive income (loss):		
Loss on plan assets excluding amounts included in net interest income	**P 864,113**	P 415,446
Remeasurements – actuarial gains arising from changes in:		
Experience adjustments	**-**	(785,290)
Financial assumptions	**-**	(13,286)
Demographic assumptions	**-**	(93,107)
	P 864,113	(P 476,237)

The current service cost and net interest cost are presented as part of Salaries and Employee Benefits under Operating Expenses in the statements of comprehensive income (see Note 18.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the discount rates and expected rate of salary increases used in the actuarial assumptions are 7.22% and 5.01% and 3.00% and 3.95% in 2022 and 2021, respectively.

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 23 in both years, for both males and females. 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 Rate 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 reference government bonds will increase the plan obligation.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The tables presented below and in the succeeding page summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2021.

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 2%	(P 312,901)	P 336,973
Salary increase rate	+/- 2%	340,378	(321,801)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement 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 retirement benefit obligation recognized in the statement of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

A large portion of the plan assets as of December 31, 2022 and 2021 consists of debt securities. The Bank believes that debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous period.

(iii) Funding Arrangements and Expected Contributions

As at December 31, 2022 and 2021, the Bank has not yet determined the amount of contribution to the post-employment benefit plan in 2023.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2021 follows:

Within one year	P	14,426,777
More than one year to five years		1,059,934
More than five years to ten years		2,452,530

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.1 years.

20. TAXES

The components of tax expense as reported in profit or loss and other comprehensive income for the years ended December 31 are as follow:

		2022		2021
Recognized in profit or loss:				
Current tax expense:				
RCIT at 25%	**P**	**3,772,226**	P	4,153,512
Final tax at 20%		**2,812,303**		1,069,512
Adjustment in income taxes due to change in income tax rate		**-**	(	517,581)
		6,584,529		4,705,443
Deferred tax expense (income) arising from:				
Origination and reversal of temporary differences	**(**	**602,333)**	(	678,786)
Effect of the change in income tax rate		**-**		2,258,451
	(	**602,333)**		1,579,665
	P	**5,982,196**	P	6,285,108
Recognized in other comprehensive income (loss) –				
Deferred tax expense arising from:				
origination and reversal of temporary differences	**P**	**3,158,972**	P	2,744,059
Effect of the change in income tax rate		**-**	(	1,881,801)
	P	**3,158,972**	P	862,258

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is shown below.

		2022		2021
Tax on pretax profit at 25%	**P**	**6,639,310**	P	4,324,585
Adjustment for income subjected to lower income tax rates	**(**	**934,099)**	(	1,059,046)
Effect of the change in income tax rate		**-**		1,740,870
Tax effects of:				
Non-deductible expenses		**780,060**		1,771,439
Non-taxable income	**(**	**503,075)**	(	492,740)
	P	**5,982,196**	P	6,285,108

The net deferred tax liabilities as of December 31 relate to the following:

	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2022	2021	**2022**	2021	**2022**	2021
Fair value gain on FVOCI	**(P 12,825,000)**	(P 9,450,000)	**P -**	P -	**P 3,375,000**	P 1,260,000
Allowance for impairment	**7,435,865**	7,943,289	**507,424**	369,635	**-**	-
Lease liabilities	**2,882,277**	275,475	**(2,606,802)**	233,795	**-**	-
Right-of-use assets	**(2,744,148)**	(168,648)	**2,575,500**	(186,229)	**-**	-
Post-employment benefit obligation	**600,340**	613,810	**39,918**	938,102	**(216,028)**	(397,742)
Unamortized past service cost	**517,758**	604,051	**86,293**	224,362	**-**	-
Net deferred tax liabilities	**(P 4,132,908)**	(P 182,023)				
Net deferred tax expense			**P 602,333**	P 1,579,665	**P 3,158,972**	P 862,258

In both years, the Bank is subject to MCIT, which is computed at 1% of gross income, as defined under the tax regulations or RCIT, whichever is higher. No MCIT was reported in 2022 and 2021 as the RCIT was higher than MCIT in both years.

In 2022 and 2021, the Bank claimed itemized deductions in the computation of its income tax due.

21. RELATED PARTY TRANSACTIONS

A summary of the Bank's transactions and outstanding balances of such transactions with its related parties as of and for the years ended December 31, 2022 and 2021 is presented below.

		2022		2021	
Related Party Category	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Stockholders:					
Rent expense	21.3	**P 2,987,387**	**P -**	P 3,555,191	P -
Loan receivable	21.1	**2,485,000**	**1,598,784**	(6,283,580)	4,806,651
Deposit liabilities	21.2	**-**	**65,191,396**	1,379,267	2,404,883
Key Management Personnel Compensation –	21.4	**6,191,396**	**-**	6,600,962	-

21.1 Directors, Officers, Stockholders and Related Interests

In the ordinary course of business, the Bank has loan transactions with certain DOSRI. The table below shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI, particularly certain stockholders, as of December 31, 2022 and 2021 in accordance with BSP reporting guidelines:

	2022	2021
Total outstanding DOSRI loans	**P 1,598,784**	P 2,131,618
Others	**-**	2,675,033
	P 1,598,784	P 4,806,651

Outstanding DOSRI loans pertain to loan receivables from various stockholders and officers.

The Bank has no unsecured, past due, and non-accruing DOSRI loans as of December 31, 2022 and 2021. The DOSRI loans have been reviewed for impairment. No impairment loss was recognized on these loans in 2022 and 2021.

21.2 Deposits

Certain related parties have deposits with the Bank. Total amount of outstanding deposits from the related parties with outstanding loan balance above, subject to hold-out, amounted to P65.2 million and P2.4 million as of December 31, 2022 and 2021, respectively. Interest incurred from these deposits are included as part of Interest Expense in the statements of comprehensive income (see Note 13).

21.3 Rentals

Certain branches of the Bank were leased from the Bank's stockholders amounting to P3.0 million and P3.6 million in 2022 and 2021, respectively, and is presented as part of Rentals under the Operating Expenses account in the statements of comprehensive income (see Note 18.2).

21.4 Key Management Personnel Compensation

Key management personnel are those personnel of the Bank having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Short-term benefits paid to key management employees amounted to P6.2 million and P6.6 million in 2022 and 2021, respectively. Short-term employee benefits include salaries and other non-monetary benefits.

22. COMMITMENTS AND CONTINGENCIES

22.1 Capital Commitments

The Bank has no capital commitments as of December 31, 2022 and 2021.

22.2 Others

As at December 31, 2022 and 2021, there are no commitments and contingent accounts of the Bank arising from transactions not given recognition in the statements of financial position.

23. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

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 based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following are the basic financial performance ratios as at and for the years ended December 31:

	2022	2021
Return on average equity		
Net profit / Average total capital accounts	**9.38%**	5.76%
Return on resources		
Net profit / Average total resources	**1.32%**	0.81%
Net interest margin		
Net interest income / Average interest earning resources	**6.04%**	5.69%

The Bank's financial performance are computed based on regulatory capital submitted to the BSP as required by Section 174, *Audited Financial Statements,* of the Manual of Regulations for Banks.

(b) Capital Instruments Issued

As of December 31, 2022, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its loans gross of allowance for ECL follows:

	2022		2021	
	Amount	**Percentage**	Amount	Percentage
Real estate activities	**P 318,343,204**	**53.65%**	P 255,535,375	45.52%
Wholesale and retail trade	**80,407,848**	**13.55%**	77,646,394	13.83%
Construction	**40,520,517**	**6.83%**	85,637,771	15.25%
Professional, scientific, and technical activities	**36,094,024**	**6.08%**	32,920,795	5.86%
Agriculture, forestry and fishing	**29,218,677**	**4.92%**	22,968,866	4.09%
Transportation and storage	**18,362,718**	**4.92%**	30,028,343	5.35%
Manufacturing	**13,239,094**	**2.23%**	5,127,569	0.91%
Financial and insurance activities	**525,056**	**0.09%**	2,510,934	0.45%
Accommodation and food service activities	**36,953**	**0.01%**	5,834,373	1.04%
Other service activities	**56,678,068**	**9.54%**	43,233,009	7.70%
	P 593,426,159	**100.00%**	P 561,443,429	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.

As of December 31, 2022 and 2021, 10% of Tier 1 Capital amounted to P13.1 million and P12.7 million, respectively, and the table shows two and three industry groups in 2022 and 2021, respectively, exceeding this level.

	2022	2021
Real estate activities	**P 318,343,204**	P 255,535,375
Wholesale and retail trade	**80,407,848**	77,646,394
Construction	**40,520,517**	85,637,771
Professional, scientific, and technical activities	**36,094,024**	32,920,795
Agriculture, forestry and fishing	**29,218,677**	22,968,866
Transportation and storage	**18,362,718**	30,028,343
Manufacturing	**13,239,094**	-
	P 536,186,082	P 504,737,544

(d) Credit Status of Loans

The breakdown of loans, net of unearned service fees, as to status is shown below.

	2022		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount	P 530,747,443	P 62,594,981	P 593,342,424
Allowance for ECL	(17,225,337)	(6,038,063)	(23,263,400)
Net carrying amount	**P 513,522,106**	**P 56,556,918**	**P 570,079,024**

	2021		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount	P 471,356,472	P 90,022,192	P 561,378,664
Allowance for ECL	(3,606,199)	(23,227,811)	(26,834,010)
Net carrying amount	P 467,750,273	P 66,794,381	P 534,544,654

As at December 31, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2022	2021
Total NPLs	**P 62,594,981**	P 90,022,192
NPLs fully covered by allowance for impairment	**(6,038,063)**	(23,227,811)
	P 56,556,918	P 66,794,381

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 as of December 31, 2022 and 2021 amounted to P70.2 million and P92.0 million, respectively. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and insured improvements and such other first class collaterals.

Interest income recognized on impaired loans and receivables amounted to P1.1 million and P1.2 million in 2022 and 2021, respectively.

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

The breakdown of total loans and discounts, net of unearned service fees, as to secured and unsecured follows:

	2022	2021
Secured:		
Real estate	**P 575,900,682**	P 544,710,734
Hold-out deposits	**7,885,619**	6,297,488
Chattel	**3,193,224**	1,204,356
	586,979,525	552,212,578
Unsecured	**6,362,899**	9,166,086
	P 593,342,424	P 561,378,664

(f) *Information on Related Party Loans*

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

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

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		**Related Party Loans (inclusive of DOSRI)**	
	2022	2020	**2022**	2021
Total outstanding loans	**P 1,598,784**	P 2,131,618	**P 1,598,784**	P 4,806,651
% of loans to total loan portfolio	**0.34%**	0.38%	**0.34%**	0.85%
% of unsecured loans to total DOSRI/related party loans	**-**	-	**-**	-
% of past due loans to total DOSRI/related party loans	**-**	-	**-**	-
% of non-performing loans to total DOSRI/ related party loans	**-**	-	**-**	-

Secured DOSRI loans are collateralized by real estate properties and are payable within three months to five years.

(g) *Secured Liabilities and Assets Pledged as Security*

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

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

As at December 31, 2022 and 2021, there are no commitments and contingent accounts of the Bank arising from transactions not given recognition in the statements of financial position.

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding page are the supplementary information which is required by the BIR under Revenue Regulation (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

24.1 Requirements Under RR No. 15-2010

(a) GRT

In lieu of the VAT, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

In 2022, the Bank reported total gross receipts tax amounting to P3,116,097 as shown as part of taxes and licenses. The Bank has no outstanding liability in relation to its GRT as at December 31, 2022.

(b) Documentary Stamp Tax (DST)

For the year ended December 31, 2022, the Bank has affixed DST totaling P1,705,085. Of this amount, P 1,484,025 was charged to clients while the balance of P221,060 was for the account of the Bank and is shown as part of Taxes and licenses.

(c) Withholding Taxes

Details of total withholding taxes for the year ended December 31, 2022 are shown below.

Final	P	1,533,984
Expanded		1,034,202
Compensation and employee benefits		276,756
	P	**2,844,942**

(d) Taxes and Licenses

Details of taxes and licenses for the year ended December 31, 2022 are as follows:

GRT	P	3,116,097
Business taxes and permits		663,853
DST		221,060
Real property taxes		162,217
Others		38,845
	P	**3,965,364**

(e) Excise Taxes

The Bank did not have any transactions in 2022 which are subject to excise tax.

(f) Taxes on Importation

The Bank has not paid or accrued any customs' duties and tariff fees as it has no importation for the year ended December 31, 2022.

(g) Deficiency Tax Assessment and Tax Cases

As at December 31, 2022, the Bank does not have any other final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

24.2 Requirements Under RR No. 34-2020

RR 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Bank is required to submit BIR Form 1709 but it is not required to submit transfer pricing documentation and other supporting documents as the Bank did not fall in any of the categories identified under Section 3 of RR No. 34-2020.