2022 ANNUAL REPORT
BANGKO KABAYAN

PRIVATE DEVELOPMENT BANK

CONTENTS

ABOUT THE COVER

"Keep Going, Keep Growing: Pushing Beyond Limits" - This statement serves as a battle cry to remain resilient, embrace change, and strive for excellence. By embodying these principles, Bangko Kabayan positions itself as a dynamic and forward-thinking institution, ready to tackle challenges, embrace opportunities, and achieve long-term success.

CORPORATE POLICY

Vision

With a God-centered, united workforce, we will be the preferred financial institution of MSMEs in the countryside, delivering relevant products and services with excellence.

Mission

To become a major partner in the country's economic development by providing quality financial products and services to MSMEs and individuals in the communities we serve.

Through continuous growth, we will provide optimum returns to our shareholders as well as opportunities for our employees to develop themselves as fulfilled and holistic individuals, aware of the important role they play in the lives of others.

Core Values

B - Belief in Divine Providence
Inspiration of Bangko Kabayan as an ECONOMY of COMMUNION (EOC) Enterprise which is based on the Culture of giving.

I - Integrity
Respect and adherence to ethical values.

S - Service Excellence
Reciprocity.

U - Unity
Relationship building.

C - Commitment to Community Development
Resource sharing.

Business Model

Bangko Kabayan has positioned itself as a bank that will support the growth of the countryside by providing products and services that add value to businesses and households, while helping them improve their standard of living. The bank's key business activities are loans and deposits generation.

The bank's primary target market includes the Micro, Small and Medium-sized enterprises (MSMEs). They are usually the underserved sector and face challenges in accessing financial services due to factors like lack of hard collateral and requirements. Bangko Kabayan provides flexibility to cater their financial needs that will contribute to the growth and development of their businesses. By building an expertise in determining the cash flow of each entrepreneur applicant and with a more in-depth understanding of the clients' capacity to pay, Bangko Kabayan is able to adopt flexible terms for SMEs that are successful in business but still lack hard collateral to offer as security for their much needed working capital and asset acquisition loans. Though this model entails greater cost in backroom procedures, it nonetheless enabled BK to access an underserved but growing sector. A thorough credit assessment process based on cash flow and collateral, as well as deeper understanding of the client, his reputation in the community, has become part of BK's formula to continuously grow its portfolio in this sector while properly managing the risks involved.

The Inclusive Finance Group handles the loan products and services for individuals and enterprises that fall under the classification of micro in terms of asset size and small asset size enterprises with similar profiles as microfinance clients. This is the group with the biggest manpower complement as it mostly comprises Inclusive Finance Advocates who serve as the sales arm of the products developed for this sector. The bank builds its mass-market portfolio, and at the same time, increases its deposits by allowing the borrowers to allocate part of their amortizations as savings in their individual deposit accounts.

The Branch Banking Group composed of the Area Managers, Branch Managers and Account Managers serves as the marketing arm of the bank for the SMEs and businesses in the agricultural sector that falls within the classification of small and medium in terms of asset size. They act as the relationship managers of the bank that reach out and cater to the needs of the clients.

In terms of deposits, the bank provides the standard range of deposit products like Savings Account, Current Account, and Term Deposit Accounts. All of these products and services are accessible to customers through the bank's branches located in 24 municipalities within the CALABARZON region. Over the years, Bangko Kabayan has been able to gradually build its deposit base, particularly low-cost deposits. This can be attributed to the goodwill generated by the bank over its 65 years of business, through its employees as well as longstanding clients who have experienced BK's brand of personalized service. It is for this reason that the bank is able to maintain its low cost of funds.

Managing its operational costs continues to be one of the main challenges as the current key business processes – such as customer acquisition, retention, loan processing and evaluation requires to involve a lot of people due to manual processes.

For improvement of its reach and enhancement of its processes towards increased efficiency without compromising its risk management standards, Bangko Kabayan has embarked on a journey with UnionBank and its affiliates. Through this, BK will be able to provide more value adding products and services, improve service delivery and strengthen market presence through the use of technology.

Brand Positioning

Over the decades, BK has portrayed the concept of personalized service to its clients, no matter how big or small they are. This personal service has been inculcated in each BK employee, we listen to the clients and allow them to feel valued, no matter the volume of business they have with the bank. Bangko Kabayan seeks to understand the unique needs and challenges faced by the clients and provide personalized support and advice when necessary. This can be seen in small but appreciated gestures like assisting in account opening and filling up forms, or carefully understanding the needs of microentrepreneurs to be able to offer a product that is relevant for that client. This personalized service is also demonstrated through the flexibility of terms offered to borrowers, especially to the SMEs whose cash flow needs vary. For this client base, the financial statements reconstruction process is not only necessary for the bank to properly determine an enterprise's cash flow and corresponding funding requirements, but it is a unique service that goes with every loan application to the bank. Building a strong customer relationship is crucial to enable the bank to offer customized and flexible solutions, assess creditworthiness effectively and maintain long term customer loyalty.

As Bangko Kabayan expands its reach not only through brick-and-mortar, but also via other channels such as partner outlets like remittance companies and even other digital applications such as GCash and PayMaya, the challenge lies on how the bank will maintain this brand of personalized service. This will manifest in the bank's choice of channels and overall customer experience, as customer interactions eventually evolve into a mixture of face-to-face and digital transactions. The bank's commitment to become the country's partner in economic development remains by constantly looking for ways to serve the financial needs of MSMEs, through well-designed and appropriate products and services that are accessible through its branch network and partner channels. The goal is to give the clients the impression that in spite of the evolution of processes and interfaces, we are still and will always be the same development bank that truly understands their needs. Dahil kami ay hindi basta Bangko, Kabayan pa.

HISTORY & TIMELINE

1957

BK was established on August 19, 1957 and was first known as Ibaan Rural Bank, Inc. (IRB)

FOUNDING FATHERS

BIENVENIDO MEDRANO
Former President of Philippine Chamber of Commerce and Industry,Co-founder of Far East Bank

MANUEL AGREGADO
Retired Auditor General

ROMAN OZAETA
Retired Supreme Court Justice

1968

Introduced checking account services and participated in various Rediscounting Programs offered by BSP and LBP.

1980s

ENTRY OF 2ND GENERATION

Through the leadership of Atty. Francis S. Ganzon and Mrs. Teresa M. Ganzon, IRB was placed in a premier position in the rural banking industry.

In 1980, the Human Resource Department was formally established and the first Vision and Mission Statements of IRB were crafted.

1990-1996

EXPANSION

The bank became an Economy of Communion (EoC) Enterprise. Eight (8) branches were established in various municipalities of Batangas – Calaca, Cuenca, Mabini, Nasugbu, Rosario, San Jose, San Juan and San Pascual.

1997

Ibaan Rural Bank, Inc.

KASAMA SA BUHAY, KATULONG SA KAUNLARAN

In celebration of its 40th Anniversary, Ibaan Rural Bank changed its name to Bangko Kabayan

Ibaan Rural Bank Foundation, Inc.

1996

Ibaan Rural Bank Foundation was established to highlight the Corporate Social Responsibility of the bank with the pupose of extending micro- credit and scholarship program for poor but deserving students and sponsoring community-building seminars.

2001

MICROFINANCE

Microfinance was adopted as a major credit product of the bank.

KABAYAN Loan
Individual Lending
KAPITAN Loan
Group Lending

2005

Acquired Banco de Jesus in Marulas, Valenzuela.

Established 2 Loan Collection and Disbursement Points.

2007

BK
BANGKO KABAYAN INC.
A RURAL BANK

BK 50 years

NEW CORPORATE LOOK

Celebrated the bank's 50th anniversary and adopted the business name "Bangko Kabayan" with a resolve to be of service not only to Batangueños but also to other communities in nearby provinces.

2011-2012

CONTINUOUS EXPANSION

Opened 5 more branches in Batangas - Balayan, Tanauan, Agoncillo, Calatagan, and Lipa.

Began expansion outside Batangas province - in Laguna and Quezon.

Acquired an online, real time and fully Integrated online banking system.

eICBA SYSTEM
Integrated Core Banking System

2016

BK
PRIVATE DEVELOPMENT BANK

Bangko Kabayan launched its new face as a Private Development Bank.

2017

In celebration of it's 60th Anniversary, BK opened its very first Microfinance Banking Office in Lobo, Batangas.

BK 60 years
Tunay na Kabayan, Walang Iwanan!

2020

UnionBank

Union Bank Philippines Inc., through its subsidiaries, City Savings Bank and Union Properties Inc. acquired majority of the shares of Bangko Kabayan.

Global Banking & Finance Award 2020

Best CSR Philippines
Best Microfinance Bank Philippines

2021

Bangko Kabayan hailed as Best MSME Growth Bank in the Philippines for 2021 by the Capital Finance International (CFI.co).

FINANCIAL HIGHLIGHTS

	2022	2021
Profitability		
Total Net Interest Income	371,782,240	289,415,247
Total Non-Interest Income	54,403,989	35,673,953
Total Non-Interest Expenses	288,330,698	250,260,362
Pre-provision Profit	108,894,262	54,775,756
Allowance for credit losses	21,877,300	-205,115
Net Income	87,016,962	54,980,874
Selected Balance Sheet Data		
Liquid Assets	1,195,025,025	1,271,098,756
Gross Loans	2,453,156,517	2,021,903,529
Total Assets	3,623,500,577	3,370,303,002
Deposits	2,877,432,263	2,777,074,140
Total Equity	596,274,231	510,951,347
Selected Ratios		
Return on Equity	15.72%	9.64%
Return on Assets	2.49%	1.60%
Capital Adequacy Ratio	21.02%	19.34%
Other		
Cash Dividend Declared	0	175,000,000
Manpower Complement		
Headcount	404	373
Officers	64	51
Staff	340	322

THE President's Report

Dear Fellow Stockholders,

Bangko Kabayan remains resilient and shows its strong growth momentum for 2022 despite the economic pressures and challenges such as rising inflation, the war in Ukraine, and unstable interest rates. The resiliency and the growth were driven by the commitment of your Bank and its team to deliver relevant financial services and support our MSME clients as we all cope with a still very difficult post-pandemic environment in the country.

Financial Highlights

With the easing of Covid-19 restrictions and as the economy moves towards its continuous reopening, Bangko Kabayan was able to grow its loan portfolio by 21.23% to Php 2.47B in 2022. The 78% of the growth was driven by Regular loans and 22% by Inclusive Finance.

Deposit wise, it ended at Php 2.88B with a growth of 3.61% from the previous year. With the time deposit drive launched by the bank, its CASA- Hi cost deposits ratio remains at a strong 75-25%. As we align with the increasing interest rates to compete with the market, our cost of deposit increased slightly to 0.83% from 0.77% in 2021, a very small increase compared to the Bangko Sentral ng Pilipinas' (BSP) 3.5% hike of its own interest rates.

As the loan portfolio grew, a modest improvement in the NPL ratio of 2.55% was reported from 2.70% in the previous year. Additional provisions of Php 21.88M were recognized in 2022 bringing the NPL coverage to 64.85% coming from 61.58% in 2021.

Despite the additional provisions, Net Income After Tax (NIAT) jumped by 58.27% to Php 87.02M for the year. With a substantial increase in the loan portfolio of Php 432M and an increase in its yield by 1.23%, net interest income grew by 28% to Php 372M and the total revenue grew by 31% outpacing the 15% growth of operating and administrative costs.

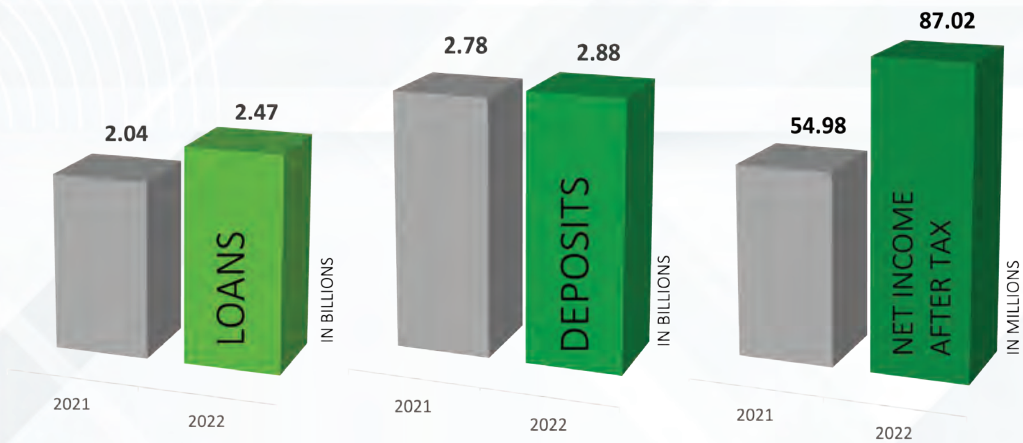
With the higher NIAT, profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) follow from 1.60% and 9.64% to 2.49% and 15.72% respectively. Moreover, BK's CAR is high at 21.02% which is way above the regulatory limit of 10%.

Operational Highlights

To support the loan portfolio growth, BK developed various Inclusive Finance loan products which were designed to expand our loan product offerings. With enhanced product features, Kabayan MSE Plus, Business Builder Loan, and Gabay Housing loans are now part of the bank's core products. Kabayan MSE Plus aims to finance additional working capital for a higher amount with a maximum of Php 1.5M with better terms and conditions while Business Builder Loan offers a lower loan amount with a maximum of Php 150K

The long-standing Gabay Housing product was likewise enhanced to include a home improvement feature. These products were warmly received by the market as the bank booked an additional new loans of Php 87M.

Last December, Bangko Kabayan signed a Memorandum of Agreement with ECPay, one of the country's leaders in electronic payments to be one of its merchant billers. Through their ECBills facility, BK's clients can conveniently pay their dues by going to any 7-11 stores or ECPay partner outlets nationwide. This will be added to the bank's list of partner



channels like Gcash, Maya, and UBP. Target onboarding with ECPay is by 1st quarter of 2023.

As we move towards digitalization, one of the major projects that were completed and implemented by the bank was the migration of the existing core banking software to the cloud which provides better scalability and an API-ready system giving the bank more flexibility to onboard digital solutions. This is the initial phase of the bank's strategy to look for digital systems that will transform some of the bank's manual processes into automated ones, as well as onboard customers efficiently. BK also embarked on upgrading its IT infrastructure which includes upgrading to a higher version of Operating System as well as ensuring its hardware compatibility which also requires a replacement of the old hardware to meet the requirements of a higher Operating System. This upgrade provides improved security features that will lower security vulnerabilities and prevent cyberattacks. A collaboration tool was also launched in the form of "Google Workspace" which enables the bank to securely access their accounts anytime and anywhere and at the same time provides a secured platform for video conferencing, instant messaging, and other collaboration tools.

In the future, this will enable BK to interface with various software applications which can help our customers connect digitally and help them participate in e-commerce more efficiently.

Development of Workforce

In line with our mission to grow the bank as a value-driven organization committing itself to its core values of belief in Divine Providence, integrity, service excellence, unity, and commitment to community development (BISUC), the management came up with a Culture Development Program. This is a culture-driven initiative to enhance personal effectiveness and team synergy among BK personnel in their respective departments and branches and to have the most meaningful and most rewarding learning experience. This

two-day seminar-workshop contains the combined elements of spiritual retreat, values formation, and team building to strengthen the BK's Culture of Sharing.

There is also a growing awareness on the value of health and wellness as necessary to the holistic development of our people. BK had a series of wellness talk sessions discussing and promoting financial management wellness, understanding stress, and burnout, psychological first aid, diet, and nutrition.

Talent Development Academy (TDA) was also approved as a flagship project of the Human Resource Department. It aims to standardize and upgrade the training processes that will further assess and validate the learning acquisition of new, promoted, and transferred employees in accordance with the standards and policies of Bangko Kabayan. As part of the holistic approach, TDA training programs will cover the major areas of the bank's business functions including (1) Sales & Marketing (2) Operations (3) Back Office Support (4) Leadership & Management. The target implementation is by 1st quarter of 2023.

As we continue to invest in the development of our employees, Bangko Kabayan presently employs 403 individuals, with 29% (117) of the workforce completing the Leadership and Management Training Program (LMTP). 93% (109) of the graduates have been promoted and are now occupying middle management positions.

Merger Updates

The merger of the three banks is geared towards the adoption of one culture, one set of processes, alignment of systems and technology, enhanced products and services for MSMEs, and building a stronger financial service and reach in rural areas.

Different working groups composed of members from BK, PBI & FB were organized to cover different aspects of the merger, i.e., People, Products and Processes, Sales, Finance, Legal and Compliance, and Technology. These working groups were also tasked to discuss and identify policies or processes which can be aligned, and other plans and activities to ensure smooth integration once the approval for the merger is obtained from the proper regulatory agencies.

Both Sales and Credit workstreams have implemented a Learning Partner Program wherein BK Credit Analysts and Branch Managers mentor a counterpart in the two banks as a way of supplementing the training programs that have been rolled out in the past year. This has allowed frontliners of PBI and FB to improve their prospecting, and credit people to improve their analysis, especially of complex SME accounts. As they do this, both banks continue to align their practices within the credit process with BK's standards and policies.

The finance workstream continues to oversee financial performance, with particular attention to liquidity issues of both banks and has been working with credit and UBP to improve ECL models of PBI and FB.
Product parameters, pricing, and processes are generally aligned already with BK's, except for some items that cannot be changed due to system limitations.

For the Tech workstream, a new TO for the IT Services Group patterned after City Savings Bank (CSB) has been proposed and approved by BK's board, which already takes into consideration priority projects for the merger and the programs under the merged bank's strategies moving forward. BK tech team has also been working with the developers of PBI and FB for ongoing projects such as Audit Issue Monitoring System (AIMS), BSP reporting via API, and Core Banking System (CBS) migration.

People workstream is currently working on the alignment of performance appraisal parameters, with a focus on the 2 banks' sales force (i.e. branch managers) who bring in the volume and accounts for SME and IF. This should complement the efforts of sales and credit on mentoring as well as the continuous drive to book SME and IF loans through monitoring of pipelines and releases. HR also works hand-in-hand with UBP on the harmonization of compensation and benefits.

To align with the Core values and culture of BK, employees of PBI and FB will also undergo a Culture Development Program scheduled for the 2nd quarter of 2023.

The merger application has received the confirmation letter from the Philippine Competition Commission (PCC), consent from Philippine Deposit Insurance Corporation (PDIC), and last September 12, 2022, it received the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). After the BSP approval, the application was submitted to the Securities and Exchange Commission (SEC). The merger shall become effective upon receipt of the approval of the SEC.

Future Directions

Moving forward, Bangko Kabayan is committed to continuing its thrust to move towards digitalization which will enable the bank to improve its backroom processes and provide a better customer experience. Bangko Kabayan will keep going, keep growing and pushing beyond limits.

Maraming salamat.

Beatriz B. Romulo
President / CEO

Challenges, Opportunities & Responses

Amidst the surge of Omicron during the early months of 2022 and while clients were balancing adjustment in the new normal while keeping themselves safe, the bank continued to manage its operations accordingly to thrive in this period of transition. We maintained our efforts in rehabilitating accounts that encountered difficulties in their business operations during this time. The bank was able to grant more flexible terms and conditions to its loan clients without sacrificing portfolio quality. Branch Managers continued to deliver personalized service by making sure that clients were on track with their payments and that loan terms matched their current payment capacity. We are delighted to say that BK continues to work closely with our clients, ensuring that our products and services remain available and relevant all the time during these challenging times.

As we approached the middle of the year and mobility further increased, the bank saw an opportunity to create more relevant products for our sector, particularly time deposits with competitive rates. This was also an effort to increase liquidity as lending continued to also increase. It was during this time that other banks held back in serving the MSME sector due to a general sense of instability brought about by ever-changing guidelines at this stage of the pandemic. However, Bangko Kabayan remained steadfast in its mission to become this sector's partner in growth.

Upon the approval of the Bangko Sentral ng Pilipinas of the merger among BK, Fairbank (FB), and Progressive Bank Inc. (PBI), with BK as the surviving entity, the bank's management corps began working with the Visayas banks in a functional merger setup. Several work streams were created in order to prioritize programs that would create a smooth transition among the three banks. Training programs were rolled out so that FB and PBI would be familiarized with BK's products and processes. Efforts towards alignment in human resources, technology, operations, credit, and sales were in full swing. BK's group and department heads were able to take on double roles – business-as-usual and functional merger workstream heads – without sacrificing their performance in their respective groups.

With all the challenges faced during the year, BK was able to convert it into opportunities thus resulting in a double digit growth rate for the bank's loan portfolio and Net Income After Tax (NIAT) as well as significant improvement of the financial ratios. Once again, BK proved its resiliency and was able to respond to these challenges.

RISK MANAGEMENT

Similar with any other businesses, Bangko Kabayan (BK) also faces several kind of risks that increase probabilities of financial losses. To mitigate these risks as a financial institution, BK established its Risk Management (RM) system as a component of good governance and an integral part of its culture.

RM basic principles show that it is an element of good governance that promotes transparency, accountability and control. Effectiveness of the RM system lies with the responsibility of the Board of Directors (BOD) through its Risk Oversight Committee (ROC) who oversees the bank's infrastructure, define, analyze, measure and report the effective control of the risks within the bank. BOD oversight includes monitoring of senior management's activities in managing credit, liquidity, operational, compliance, interest, market, strategic and reputational risks inherent in BK.

BK applies the Enterprise Risk Management (ERM) integrated approach to view risks, considering the risks at all levels of the organization and the inter-dependencies of its various units. BK's ERM aims to identify the risks associated with the core activities and business strategies of the bank and craft risk strategies to address these risks, at the same time inculcating RM as part of BK's culture while integrating RM as part of BK's good corporate governance and strategic management. It also aims to enhance operational efficiency, help sustain growth and optimize BK's earning potential.

BK's ERM encompasses strategic implementation of three line of defenses to define boundaries and clear responsibilities between each group. The first line of defense is the business line units who own and manage the risks. The second line of defense is the independent risk management and compliance function of the bank that oversees the risks. And the third line of defense is the internal audit which provides independent assurance.

To provide a system of checks and balances, BK separates the risk-taking decision from the risk assessment and controls over it. The front office functions in charge of business execution and risk taking activities is segregated from back office functions where the later performs support functions to increase efficiency, and implements control functions for discipline and risk mitigation. The core banking system of BK also set appropriate controls that serve as a back office in both functions by limiting the access of the users using the least privilege principle and separation of duties. Independent from front office and back office, BK established a middle office through the risk management officer who has a direct access to the BOD and has sufficient leverage to push through complex or uncomfortable risk issues to the highest levels of decision-making.

Risk Appetite and Strategy

To be able to achieve BK's ERM objectives, BK defined its risk appetite as the maximum level of risk the bank is prepared to accept in order to achieve its corporate objectives. This ensures that identified risks shall be managed to acceptable levels set by the bank. Risk appetites are reviewed and approved by the BOD through its ROC and is communicated down to operational level by formulating related risk limits that form part of the BK's policies.

- BK shall pursue its 3-year business plan within a moderate risk appetite to support its vision of becoming the preferred financial institution of MSMEs in the countryside.

- BK shall continue to take calculated risks to effectively serve its stakeholders, taking into consideration its overall sustainability and maintaining a capital adequacy ratio (CAR) of 12%, an acceptable annual Return on Equity (ROE) of 9%, a combined liquidity of 19% and a stable regulatory rating of at least 3 based on BSP's Supervisory Assessment Framework (SAFr).

- BK plans to operate within moderate overall risk range, reducing risks emanating from competition, client relationship management, information technology confidentiality, product pricing, BSP regulations, technology implementation, information technology availability / continuity, employee communication, and tone at the top.

Communication and reinforcement of BK's risk appetite throughout the bank help align all employees' risk taking decisions. For managing concentration of risk, prudent risk limits are set for strategic, credit, liquidity, reputational, compliance and operations risks in accordance with BK's size, complexity and risk profile. These risk limits are reviewed and approved by the BOD through its ROC. Through the risk management process, breaches of the risk appetite and risk limits can be identified. As the bank's risk management continuously monitors the limits, any breaches are reported to BOD and ROC for analysis and decision.

Significant Risk Areas Exposures

STRATEGIC RISK
Risks that arise when there are forces in the external environment that could either put a company out of business, or significantly change the fundamentals that drive its overall objectives and strategies.

TECHNOLOGY RISK
Risks that arise from the use of computer systems in the day-to-day conduct of the bank's operations, reconciliation of book of accounts, and storage and retrieval of information and reports. This also includes failure to comply with corporate IT policies and controls, duplication of efforts, increased costs and inefficiencies.

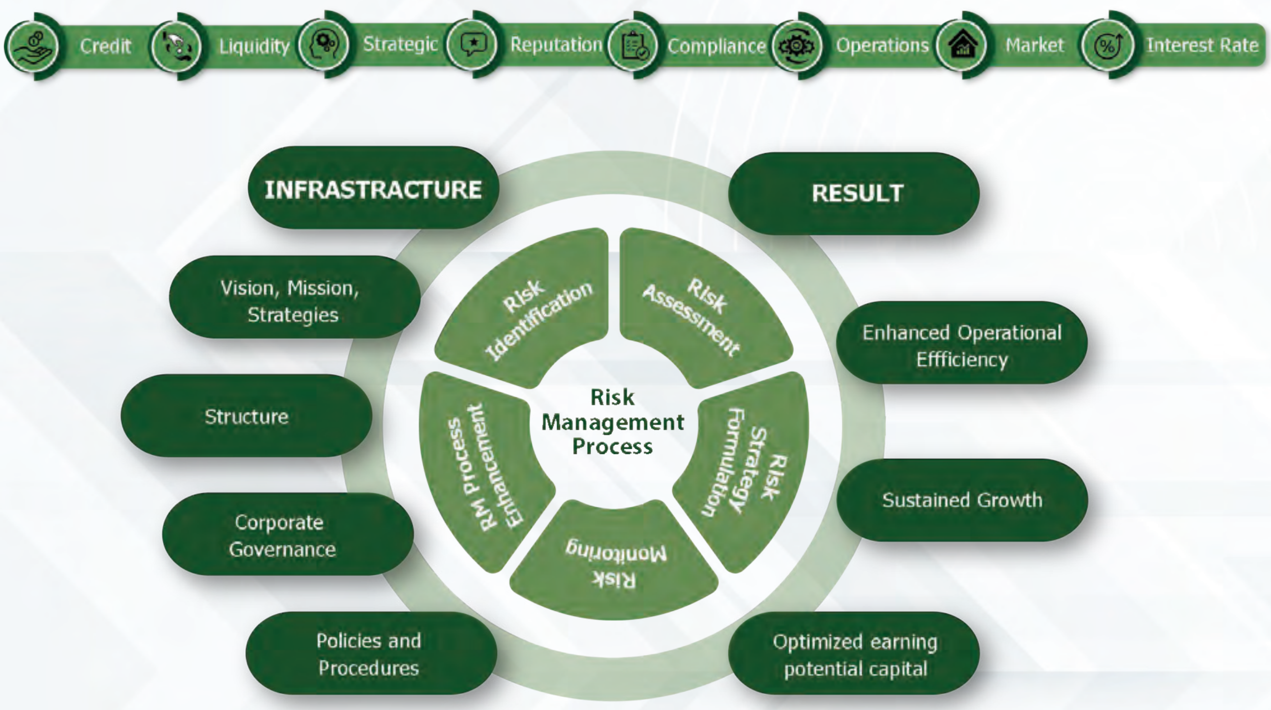
CYBER-SECURITY RISK
Any risk of financial loss, disruption or damage to the reputation of an organization resulting from the failure of its information technology systems.

CREDIT RISK
Inability to review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk that loss is incurred if counter party does not fulfill its financial obligations in a timely manner.

OPERATIONAL RISK
Risks that operations are inefficient and ineffective in executing BK's business goal which includes failure to deliver and support products and services to meet customer expectations.

COMPLIANCE RISK
Risks that arise when there is non-compliance with prescribed organization policies, procedures or laws and regulations that result in penalties, fines, etc. This includes regulations with BSP, SEC, AMLC, BIR, DOLE and other regulatory agencies.

REPUTATIONAL RISK
Risk of damage to a bank's image and public standing that occurs due to some dubious actions taken by the bank. Sometimes reputational risk can be due to perception or negative publicity against the bank and without any solid evidence of wrongdoing. Reputational risk leads to the public's loss of confidence in a bank.



LIQUIDITY RISK
Failure to ensure that the company has access to sufficient funds to honor its cash outflow obligations or inability to meet investments and funding requirements arising from cash flow mismatches without incurring unacceptable losses or costs.

ENVIROMENT AND SOCIAL RISK
Potential financial, legal, and/or reputational negative effect of environmental and social issues.

INTEREST RATE RISK
Inability to appropriately plan for and react to fluctuations in interest rates. Interest rate risks usually arises from the differences in the changing rate relationship and from the differences in the timing of rate changes and cash flows.

MARKET RISK
Failure to manage risk of changes in the value of a product, instrument or transaction from underlying market exposure. This also includes inability to appropriately plan for and react to fluctuations in foreign exchange rates.

Risk Management Process

BK sees RM as a function and process that utilizes its infrastructure such as vision, mission, strategies, organizational structure, corporate governance, policies and procedures, technology, communication and reporting system to achieve the RM objectives of enhanced operational efficiency, sustained growth, optimized earning potential of capital, optimized beneficiary reach and risk culture inculcation. There are 8 risk categories identified to be monitored by financial institutions namely credit, liquidity, strategic, reputation, compliance, operations, market and interest rate. These risks are inherent given the infrastructure and systems instituted which, if properly managed through an effective RM system should lead to the intended results.

Risk Governance Structure

BK adheres with the RM structure for efficient facilitation of the risk management process. The Risk Officer (RO) heads the risk management function and has direct access to the Board of Directors and Risk Oversight Committee. RO directly reports to the Board of Directors, but administratively reports to the President. There is also an oversight coming from the Group Subsidiary Risk Officer of the Parent Bank to ensure alignment between UBP and its subsidiaries' risk management activities and processes. The RO is responsible for overseeing the risk management function and should support the BOD in the development of the risk appetite and risk appetite statement of the bank, and for translating the risk appetite into a risk limit structure. The RO also proposes enhancements to risk management policies, processes and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

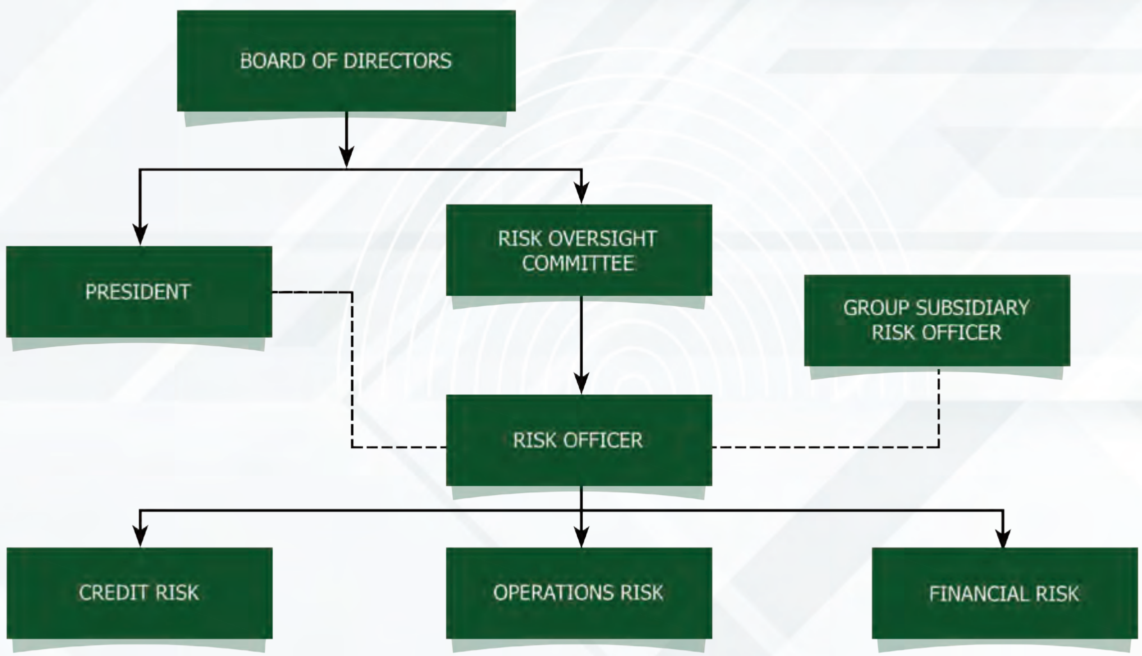
The Risk Management Function is responsible for overseeing the risk-taking activities across the bank, as well as in evaluating whether these remain consistent with the bank's risk appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the bank. The risk management function is responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It directly reports to the Risk Oversight Committee (ROC) or BOD.

The Board of Directors of Bangko Kabayan is responsible for approving the bank's risk governance framework and oversees management's implementation. The BOD defines the bank's risk appetite by taking into account the business environment, regulatory landscape and the bank's long term interests and ability to manage risk. The BOD also approves and oversees adherence to the risk appetite statement, risk policy and risk limits and defines organizational responsibilities following the three lines of defense framework. The BOD ensures that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

Bangko Kabayan designated a Risk Oversight Committee (ROC) who will primarily advise the BOD for BK's overall current and future risk appetite, oversee senior management's adherence to the risk appetite and report on the state of risk culture of the bank. The committee's main responsibility is to oversee the risk management framework, adherence to risk appetite and risk management function and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It also ensures that corrective actions are promptly implemented to address risk management concerns and that the current and emerging risk exposure are consistent with the bank's strategic direction and overall risk appetite. The ROC also performs assessment on 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. It is also responsible for the appointment/selection, remuneration, and dismissal of the Risk Officer (RO).

Risk governance requires effective information sharing and communication system enabling the timely, accurate, concise, and understandable transfer of information. This includes, educating, collecting feedback, reporting and engaging in fruitful discussion about risk. The risk management of BK is responsible for communicating risk information throughout the institution through the preparation and presentation of risk reports. This report is also presented during the regular monthly and quarterly meeting of the Risk Oversight Committee and the BOD. The risk report covers satisfactory content like areas of concern, emerging threats and opportunities and material risk areas within the organization that is being monitored. To ensure accuracy of the risk reports, the data being used is reconciled and validated from system generated reports and financial statements.

BK employs the use of risk measurement tools like Key Risk Indicator (KRI), Stress Testing and Incident Monitoring for determining the quantitative and/or qualitative impact or consequences of risk. Key Risk Indicators (KRI) is used to predict the occurrence of risks. Each of the identified top priority risks has a set of KRIs that measures the possibility of the identified priority risk happening. Stress testing is used to evaluate the financial position under unlikely, yet possible events that could cause significant impact to capital. It covers various scenarios arising from identified risk events with a high probability of occurrence. BK performs stress testing for risk events that may affect large exposures and sources of funds. Results of these tests are included in the risk reports of the Risk Officer (RO) to the Risk Oversight Committee of the Board. Scenarios and assumptions are set by the RO based on current conditions and factual information. Monitoring of Incident Report involve actions that are not in compliance with existing policies and procedures of the bank, irregularities encountered on the systems or any action that is against the interests of the bank are monitored, summarized and reported quarterly to the Risk Oversight Committee as operational risk management tool for monitoring risk of loss resulting from inadequate or failed internal processes, people and system or from external events.



Anti-Money Laundering/Countering the Financing of Terrorism Risk Management

AML/CFT risk management involves assessing the risk attributed to money laundering and financing of terrorism and implementing an appropriate response to mitigate the risk. Bangko Kabayan conducts Institutional Risk Assessment as an approach for the identification, assessment and management of ML-TF risk of the Bank. It is achieve by identifying and assessing inherent ML-TF risks, the strength of internal controls in place and the resulting residual ML-TF risk that the Bank may face. The Objectives of the IRA is to:

1. Assess the ML-TF risk profile of the Bank and evaluate the adequacy of internal controls
2. Set out the methodology and criteria for identifying aspects within the Bank that represent potential vulnerabilities to ML-TF and to evaluate these vulnerabilities.
3. Enable the Bank to apply appropriate risk management processes and controls in order to reduce ML-TF risks.
4. Serve as basis for enhancing the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP).

The Bank's MTPP aligns with the provision of the Anti- Money Laudnering Act (AMLA), as amended, the Terrorism Financing Prevention Act (TFPA), their implementing Rules and Regulations (IRR), and all Anti-Money Laundering Council (AMLC) and Bangko Sentral issuances.

The Bank's MTPP covers the basic pillars of an AML/CFT Program, to wit:

- A system of internal policies, procedures and controls (first line of defense);
- A designated compliance function with a compliance officer (second line of defense)
- An on-going employee training program;
- An independent audit function to test the overall-effectiveness of the MTPP (third line of defense)

The MTPP manual is maintained by the Compliance Office. It is updated at least once every two (2) years or as needed to properly adhere to new rules and regulations of regulatory agencies, laws and policies and procedures of the Bank. The Bank's Board of Directors approves the MTPP.

The Board, Senior Managenent and all employees strictly adhere on full compliance with the applicable rules and regulations issued by the Anti Money Laundering Council (AMLC) and the Bangko Sentral ng Pilipinas. The Corporate Governance Committee is tasked to monitor that the MTPP is being implemented. The Bank's procedure for compliance with the AMLA are set out in its MTPP. The Bank's Chief Compliance Officer, monitors AMLA compliance and conduct regular compliance testing of business units.

In order to minimize compliance risk and eliminate deviation from regulatory requirements, the Compliance Office created an e-learning module for the employees of the Bank. The AML Training Programs are designed specifically for the different Bank employees depending on their areas of responsibility and exposure to risk. These training programs are consistent and in accordance with the pertinent provision of the BSP Manual of Regulations for Banks and related BSP and SEC circular, as well as, the Anti-Money Laundering Act of the Philippines. All responsible officers and employees are informed of all resolutions, circulars and other issuances by the BSP and the AMLC in relation to matters aimed at preventing money laundering and terrorist financing.

To verify true identity of the clients a written customer acceptance and identification policy procedures was established. Under the guidelines each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank required to risk profile its client to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk based approached mandated by the MORB. Decisions to enter into a business relationship with high risk customer and politically exposed person requires senior management approval.

All customer identification records, such as identification documents, signature cards and documentary requirements submitted by the clients and records pertaining to customer due diligence shall be maintained and safely stored as long as the account exists and for five years after its closure, except if the account involved in money laundering case, documents are retained until the case is decided with finality.

The Compliance unit is responsible for transaction monitoring and reporting system for Covered Transactions (CTRs) and Suspicious Transactions (STRs) in coordination with the various units or groups within the Bank. The AML Committee performs the final review of the suspicious transaction before its filing as STR.

Risk on money laundering and terrorist financing may arise from the development of new products and business practices, and new technologies that may be used to both new and existing products. Thus, risk assessment is done to identify appropriate measures to mitigate risk.

The Internal Audit Department are tasked to conduct assurance on the effectiveness and adequacy of the MTPP through conduct of regular audit.

CORPORATE GOVERNANCE

The Board of Directors and Management of Bangko Kabayan commit to promote good Corporate Governance as embodied in the regulations of the Bangko Sentral ng Pilipinas (BSP) and Securities and Exchange Commission (SEC) and acknowledged that the same may properly guide the Bank in attaining its corporate goals and objectives, of which giving excellent service to customers and complying with laws, rules and regulations are of primary importance.

The Board of Directors and Senior Management believe that corporate governance is a necessary component of sound strategic business management and will therefore undertake every effort necessary to create awareness and ensure compliance with corporate governance policies and practices. The Board of Directors sets the tone at the top through directives and policies that is being communicated to its employee. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgement.

To fulfill its advocacy of good corporate governance, Bangko Kabayan has implemented a Goverance System that encompasses the three critical pillars consisting of: (1) a Board of Directors that provides direction for business and risk strategies, organization, financial soundness and governance; (2) Senior Management that carries the implementation of the strategies and initiatives set and approved by the Board; and (3) an internal control system which covers implementation of the key control function such as risk management, compliance and internal audit.

The Board is also committed to abide with the Unionbank Group Governance Policy on its oversight function over its subsidiaries to ensure full compliance with the regulatory mandate of the BSP.

Selection Process for the Board and Senior Management

Bangko Kabayan (BK) believes in selecting the right candidates based on the a) the qualification of the candidates, and b) the hiring standards of the Bank. To ensure a healthy exchange of views and objective judgment, professionals with various expertise are considered to guide the strategic direction of the bank.

The composition and term limits of the BOD is in line with the regulations set forth by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission ensuring an appropriate structure of corporate governance in place.

Majority (8 out of 9 of BK's board members are non-executive directors, including three (3) independent directors. This promotes an environment that allows members of the board to challenge actions and proposals of management while exercising shared responsibility in managing the business.

The appointment of Senior Management members is also subject to hiring standards of the bank and on the rules set by the BSP. They must also uphold the vision and core values of Bangko Kabayan.

Board of Director's Over-all Responsibility

The Board of Directors is shaping the corporate culture and values of the bank by upholding BK's Vision, Mission and Core Values. They are highly involved in:

a. strategic planning and oversight on Management's implementation of the annual approved plan
b. appointing key members of the senior management to ensure competence and accountability
c. overseeing the corporate governance framework by meeting regularly and discussing relevant matters and
d) adopting a robust compliance and risk governance framework

The Board delegates some of its functions to board-level committees. Presently the Bank has four committees, (1) the Audit Committee; (2) Risk Management Committee, (3) Corporate Governance Committee, and (4) the IT Committee. The Audit committee has oversight over its internal audit functions. The Risk Management Committee oversees the bank's risk governance framework. The Corporate Governance Committee assist BOD in fulfilling its corporate governance responsibilities, has oversight on Compliance function and Related Party Transaction of the Bank and ensure the banks comply with the Anti-Money Laundering Act as amended. The IT Committee is an integral part of the Bank's governance framework and consists of the leadership and organizational structure and processes that ensure the alignment of the IT strategic plan with the Bank's business strategy and optimizations of resource management.

The Chairman of the Board

The Chairman of the Board is appointed by members of the Board and provides leadership and governance to ensure that the body discharges its mandate effectively. The Chairman sees to it that all members promote the highest standards of integrity and the board, as a whole, decides on matters collectively in order to steer the bank towards its strategic direction ensuring the achievement of its goals.

Executive, Non-executive and Independent Directors

The Executive director is responsible to day-to-day operations of the bank while Non-executive and Independent directors are those who are not part of day to day management operations. BK Board composed of nine (9) members, majority of whom are non-executive. The bank promotes independent oversight function over management through committees such as Audit, Risk Oversight and Corporate Governance.

Board of Composition

The Board of Directors is composed of (9) Directors with at least three (3) Independent Directors, each holding at least 1 share. The composition of the Board is as follows:

Members of the Board of Directors	Directorship	No. of Years	No. of Share (as of December 31, 2022)	Percentage (as of December 31, 2022)
Lorenzo T. Ocampo	Chairman of the Board	2	1	0.00%
Beatriz B. Romulo	Executive Director	3	1	0.00%
Manuel G. Santiago Jr.	Non-Executive Director	1	1	0.00%
Teodoro M. Panganiban	Non-Executive Director	3	1	0.00%
Francis S. Ganzon	Non-Executive Director	35	256,748	6.98%
Maria Teresa M. Ganzon	Non-Executive Director	35	521,042	14.17%
Danilo J. Mojica II	Independent Director	1	1	0.00%
Mardonio C. Cervantes	Independent Director (Elected March 19, 2022)	9 months	1	0.00%
Teresita G. Domalanta	Independent Director (Elected March 19, 2022)	9 months	1	0.00%

Board Qualifications

The board of directors determines the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the Bank's operations. And abide on the fit and proper rule of the Bangko Sentral ng Pilipinas (BSP) and those defined by the Securities and Exchange Commission (SEC). To the extent practicable, the members of the board of directors are selected from a broad pool of qualified candidates. Non-executive directors, including the independent directors, comprises majority of the board of directors to promote the independent oversight of management by the board directors.

Board-Level Committees

To comply with the principles of good governance, the Board constitutes the following Committees:

1. Audit Committee
   The Audit Committee aims to enhance its oversight capability over the Bank's financial reporting, internal control systems, internal and external audit processes.

Name	Designation
Danilo J. Mojica II	Chairman
Teodoro M. Panganiban	Member
Mardonio C. Cervantes	Member
Teresita G. Domalanta	Member

2. Corporate Governance Committee
   The Corporate Governance Committee is tasked to assist the Board in the performance of its corporate governance responsibilities by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. It also ensures compliance with and proper observance of corporate governance principles and practices as required by the regulatory bodies. The committee also oversees the bank's compliance function, related party transactions and compliance with Anti-Money Laundering Act.

Name	Designation
Teresita G. Domalanta	Chairman
Mardonio C. Cervantes	Member
Danilo J. Mojica II	Member
Teodoro M. Panganiban	Member

3. Risk Oversight Committee
   The Risk Oversight Committee oversees the Banks's enterprise risk management system and ensure its functionality and effectiveness.

Name	Designation
Mardonio C. Cervantes	Chairman
Danilo J. Mojica II	Member
Teodoro M. Panganiban	Member
Teresita G. Domalanta	Member

4. IT Committee
   The IT Committee is ultimately responsible for understanding the IT risk confronted by the bank and ensuring that they are properly managed through institution of policies and procedures. They ensure the alignment of the IT strategic plan with the Bank's business strategy

Name	Designation
Teodoro M. Panganiban	Chairman
Beatriz B. Romulo	Member
Danilo J. Mojica II	Member
Leandro B. Ofrecio	Member

Board of Directors' Attendance

January - December 2022

Name of Directors	Board number of meetings		Corporate Governance Committee		IT Committee		Audit Committee		Risk Oversight Committee	
Regular	12		3		12		4		5	
Special			2				1		3	
Meetings Attended (% of Attendance)										
Lorenzo T. Ocampo	12	100%								
Beatriz B. Romulo	12	100%			10	83%				
Manuel G. Santiago Jr.	12	100%								
Teodoro M. Panganiban	12	100%	3	100%	12	100%	5	100%	8	100%
Francis S. Ganzon	10	83%								
Maria Teresa M. Ganzon	9	75%								
Danilo J. Mojica II	11	91%	5	100%	9	100%	3	100%	6	75%
Mardonio C. Cervantes	9	100%	3	100%			3	100%	6	100%
Teresita G. Domalanta	9	100%	3	100%			3	100%	6	100%
Resigned Directors										
Ma. Corazon G. Guzman	3	100%	2	100%	3	100%	2	100%		
Norberto M. Belen	3	100%	2	100%			2	100%	2	100%

BOARD OF DIRECTORS

LORENZO T. OCAMPO
58, FILIPINO

Serves as the Chairman of the Board in Bangko Kabayan Inc. and the President, CEO and Director of City Savings. He is currently a Board of Trustee of the Chamber of Thrift Banks. He also holds directorship in First Agro-Industrial Rural Bank, Inc., North Cornerstone Holdings, Inc. and CSB Land, Inc. He was formerly President of Banana Fintech Services Corp; Director of Philippine Resources Savings Banking Corporation; President and CEO of Waybetter, Inc.; Member, Board of Trustees of Dualtech Training Center; Director of Family Alliance, Inc., Margarita Land, Inc., East Offices, Inc. from 2005 to 2018; Chairman of A.V. Ocampo-ATR Kimeng Insurance Broker, Inc. from 2005 to 2017; and President and CEO of PET Plans, Inc and PETNET, Inc. from 2003 to 2018. Mr. Ocampo is a graduate of Georgetown University with a degree in Bachelor Science in Business Administration, Major in Finance and proceeded to the University of Asia and Pacific to take up Strategic Business Economics program.

BEATRIZ B. ROMULO
68, FILIPINO

Holds the position of Director, President and CEO of Bangko Kabayan Inc. She is also currently a Director of Progressive Bank, PETNET, Inc., First Union Direct Corporation, and UBP Investments Corporation. She is also a Trustee and Treasurer of CPR Foundation. In the past, she was a director of Strongview Inc. from 2020 to 2021 and PR Savings Bank from 2018 to 2019, United Forex UCPB Factors and Finance from 1992 to 1995, UCPB Savings Bank (1992-1995), UCPB Securities (1992-1995), Cocolife (1992-1995), UCPB General Insurance (1992-1995), UBX Philippines Corporation (2019-2022) and Independent Director, Finscore Inc. from 2020 to 2021. Senior Adviser/Consultant from 2018 to 2020, Executive Vice President from 2006 to 2017,Union Bank of the Philippines; Executive Vice President, International Exchange Bank from 1995 to 2006; SVP/Division Head, United Coconut Planters Bank from 1993 to 1995; Vice Chairman, UCPB Leasing from 1992 to 1995 SVP/Deputy Division Head from 1991 to 1993; VP/Group Head from 1990 to 1991,AVP/ Section Head from 1986 to 1989; Account Officer from 1983 to 1985 and Analyst, Herdis Group from 1980 to 1982. Ms. Romulo graduated from St. Paul College with a degree in AB Economics and a Master in Business Administration at Ateneo Graduate School.

MANUEL G. SANTIAGO, JR.
63, FILIPINO

Serves as Director of Bangko Kabayan, Inc. and currently the Chairman of the Board of PETNET, Inc. and SEVP/Chief Operating Officer of City Savings Bank. He has been a Director of Progressive Bank Inc. and First Union Direct Corporation. He previously holds various positions in Union Bank Philippines. Some of which are EVP and Chief Mass Market and Financial Executive, EVP and Head of Consumer Finance Center and SVP and Credit Card Business Head. He was also previously connected with Far East Bank and Trust Co. as VP and Head of Credit Card Services and American Express Bank in Jakarta Indonesia and in Manila as Director of Operations. Mr. Santiago graduated from University of Sto. Tomas with the degree of Bachelor of Arts major in Economics.

TEODORO M. PANGANIBAN
71, FILIPINO

Serves as a Director of Bangko Kabayan Inc. He is also currently the Chairman of the Board of First Agro-Industrial Rural Bank, Inc. and holds a directorship in First Union Direct Corporation, Robinsons Bank, Maxicare Life Insurance Corporation and Maxicare Healthcare Corporation. His work experience includes: Director (Nominee/ Representative of UBP) of Philippine Clearing House Corporation from 2004 to 2019; Senior Adviser to the Board of City Savings from 2018 to 2019; Vice Chairman of Philippine Resources Savings Banking Corporation from 2018 to 2019; Special Assistant to the Chairman (Consultant) of Union Bank of the Philippines from 2014 to 2019; Director of City Savings from 2013 to 2018; EVP – Chief Risk Officer of Union Bank of the Philippines from 2011 to 2014; and EVP – Head, Channels Management Center of Union Bank of the Philippines from 2001 to 2011. Mr. Panganiban graduated from the University of the Philippines with a degree in BSBA Accounting.

FRANCIS S. GANZON
72, FILIPINO

Serves as a Director of Bangko Kabayan Inc. He served as President, Chairman and Vice Chairman of the BOD of Bangko Kabayan Inc. from 2007 to March 11, 2020; President, Rural Bankers Association of the Philippines from 2006 to 2007; Board of Trustees Member, De La Salle –Lipa from 1995 to 2005); Chairman of the Board, Villa Vicenta Farms, Inc from 1985 to 1993; Executive Director/Assistant Secretary, DOTC Telecommunication Office from 1989 to 1992; Corporate Secretary, Synthetic Textile Mills, Inc. from 1977 to 1980; Associate Lawyer, De Santos, Balgos & Perez Law from 1976 to 1978; Vice Chairman of the Board of Directors from 1992 to 2007; President from 1992 to 2007, Corporate Secretary 1986 Director from 1979 to 1986, Ibaan Rural Bank .Mr. Ganzon graduated from De La Salle-Bacolod with a degree in AB Political Science and a degree in Bachelor of Law at Ateneo De Manila.

MARIA TERESA M. GANZON
68, FILIPINO

She currently serves as a Director of Bangko Kabayan Inc. Past positions held include: Bangko Kabayan Inc. Director from 2007 to 2018; Chairman of the BOD from March 2020 to January 2021 and from 2018 to 2019; Corporate Secretary from 2015 to 2017; Managing Director for Human Resource from 2012 to 2017; Managing Director for Strategic Planning for the year 2012 and Personnel Officer/Corporate Secretary from 1979 to 1986. Ms. Ganzon graduated from the University of the Philippines with a degree in AB Journalism and a Master in Entrepreneurship at the Asian Institute of Management.

DANILO J. MOJICA II
62, FILIPINO

Serves as an Independent Director of Bangko Kabayan Inc. He is also currently connected with RMR Capital Inc. and Code Gakko as Director, Island Stays Hotel as Managing Director and with City Savings Bank and PETNET, Inc. as Independent Director. He also serves as Project Consultant of FEXCO Philippines Inc. and Program Director of the University of Asia and the Pacific since 2019. He is also the President and CEO (Owner) of Tailwind Digital Solutions. Mr. Mojica took up B.A. major on Philosophy at the Ateneo De Manila University, Masters in Business Economics at the University of Asia and the Pacific and PhD Leadership Business track at the Ateneo De Manila University.

MARDONIO C. CERVANTES
70, FILIPINO

Serves as the Director of Bangko Kabayan, Inc. He is also currently connected with Progressive Bank as an Independent Director. He was connected with Insular Bank of Asia & America as Internal Audit Leader; as Senior Assistant Manager of PCI Bank from January 2, 1985 to October 15, 1985; as First Vice President and Head of Treasury from 1985 to 2012 of the Unionbank of the Philippines; and as Consultant-Treasury from 2013 to 2015 of the Union Bank of the Philippines. Dir. Cervantes graduated from University of San Jose Recoletos-Cebu City with a degree of Bachelor of Science Major in Accounting and Master in Management at University of San Jose Recoletos-Cebu City.

TERESITA G. DOMALANTA
77, FILIPINO

Serves as Director of Bangko Kabayan, Inc. She is currently connected with City Savings Bank Inc and First Agro-Industrial Rural Bank as an Independent Director. She was an Adviser/Consultant of the UnionBank CSR Learning Initiative from 2006 to 2010; Career Executive Officer III and Regional Director of the Department of Education - National Capital Region (NCR) and Cagayan Valley - Region 02; Consultant of the Government Service Insurance System from 2006 to 2009; and an Independent Director of the Philippine Resources Savings Banking Corporation from 2018 to 2019. Dir.Domalanta graduated from Philippine Normal College with a degree of Bachelor of Science in Elementary Education and Master of Arts in Education both from the Philippine Normal College and Doctor of Education at the UP Consortium and North Eastern University.

Change in the Board of Directors

New Directors	Period	Directorship
Mardonio C. Cervantes	March 19, 2022	Independent Director
Teresita G. Domalanta	March 19, 2022	Independent Director

Performance Assessment Program

Periodically, the Board of Directors conduct a self-assessment of its performance against established criteria for purposes of assessing its effectiveness. Performance assessment serves as the board's tool to improve its structure, composition, practices and procedures.

The Chief Compliance Officer prepares the overall report and submits the same to the board for discussion and action to improve effectiveness.

SENIOR MANAGEMENT

BEATRIZ B. ROMULO
68, FILIPINO

Holds the position of Director, President and CEO of Bangko Kabayan Inc. She is also currently a Director of Progressive Bank, PETNET, Inc., First Union Direct Corporation and UBP Investments Corporation. She is also a Trustee and Treasurer of CPR Foundation. In the past, she was a director of Strongview Inc. and PR Savings Bank. An Independent Director of Finscore Inc. She also served as Senior Adviser/Consultant and Executive Vice President of Union Bank of the Philippines. Ms. Romulo is a graduate of St. Paul College with a degree in AB Economics and a Master in Business Administration at Ateneo Graduate School.

LEANDRO B. OFRECIO
42, FILIPINO

Serves as the Chief Operating Officer of the bank. He has been with Bangko Kabayan Inc. since 2012 and held key positions namely: Branch Banking Group Head, Strategic Support Group Head, and General Services and Administrative Department Head. Mr. Ofrecio is a graduate of the University of the Philippines with a degree in BS Industrial Engineering and a Master in Business Administration Major in Marketing at the Asian Institute of Management.

LIZA V. MERCADO
59, FILIPINO

Serves as the Chief Financial Officer of the bank. She is a Certified Public Accountant. She held key positions in Bangko Kabayan Inc. from 1987 to 2018 as Director, Vice President for Operations, Assistant General Manager/Cashier, Chief Accountant, and Internal Auditor. Ms. Mercado is a graduate of Western Philippine Colleges with a degree in BS Accountancy and a Master in Business Administration at the Batangas State University.

CHERRY LOU B. BENEDICTO
39, FILIPINO

Serves as Corporate Planning Head. She is a Certified Public Accountant and a Certified Treasury Professional. She has been with Bangko Kabayan Inc. since 2005 and held key positions namely: Treasury Offcer/MIS Head from 2018 to 2021, Comptroller/ Budget Officer from 2015 to 2018 and Chief Accountant from 2008 to 2015. Ms. Benedicto is a graduate of Lyceum of the Philippines University with a degree in BS Accountancy and a Master in Business Administration.

REY V. ORENSE
44, FILIPINO

Serves as the Branch Banking Group Head of the bank. He held key positions in Bangko Kabayan Inc. from 2002 to 2021 as Area Head, Branch Manager, Officer-In-Charge, MF Supervisor, and Account Officer. Mr. Orense graduated from Batangas State University and Lipa City Colleges with a degree in BA Entrepreneurship and BS Accountancy respectively.

MA. GENELYN R. DIMACULANGAN
39, FILIPINO

Serves as Credit Group Head. She held key positions in Bangko Kabayan Inc. from 2005 to 2020 as Credit Management Head, Corporate Planning and Business Continuity Officer, Special Assistant to Credit Group Head, Loans Monitoring Unit Head, Credit Support Department-Assistant Department Head, Credit Processing Unit Head, and Assistant Private Banking-Assistant Manager. Ms. Dimaculangan graduated from Batangas State University with a degree in BS Financial Management and a Master in Business Administration at the Golden Gate Colleges.

NIMROD E. DELA PEÑA
56, FILIPINO

Serves as Inclusive Finance Group Head. Prior to his employment with Bangko Kabayan, he was a Managing Consultant of CCT Cooperative. He also worked as Operations Manager at Moris Rasik in Timor Leste, Operations Director of Team Micro Credit Corp. and Manager of Flying for Life Philippines. Mr. dela Peña is a graduate of Philippine Christian University with a degree in Bachelor of Science in Business Administration.

LEAH B. JAREÑO
54, FILIPINO

Serves as the Operations Group Head of the bank. She held key positions in Bangko Kabayan Inc. from 1993 to 2022 as Area Head, Branch Manager, Officer-In-Charge, Branch Cashier, and Teller. Ms. Jareno graduated from Lyceum of the Philippines University -Batangas with a degree in BS Business Administration Major in Financial Management and Master in Business Administration.

FE H. MANALO
40, FILIPINO

Serves as the Internal Audit Officer-in-Charge. She held key positions in Bangko Kabayan Inc. from 2007 to 2022 as Branch Audit Unit Head, Senior Auditor, Junior Auditor, Microfinance Account Officer, Senior Microfinance Account Officer. Ms. Manalo graduated from Batangas State University with a degree in BSBA in Management. She is a Certified Internal Control Auditor by Institute for Internal Controls.

NORMA P. COMETA
49, FILIPINO

Serves as the Chief Compliance Officer. She is a Certified Public Accountant. She has been with Bangko Kabayan Inc. since 2003 and held key positions namely: MIS Group Head/Treasury and Budget Officer from 2014 to 2015, Microfinance Department Manager from 2006 to 2014, Microfinance Supervisor from 2005 to 2006, and Senior Accountant from 2003 to 2005. Ms. Cometa is a graduate of Philippine School of Business Administration with a degree in BS Accountancy and a Master in Business Administration at the University of Sto. Tomas.

MARIETA B. PATAL
42, FILIPINO

Serves as the Risk Officer of the bank. She is a Certified Data Protection Officer Ace Level 1. She has been with Bangko Kabayan Inc. since 2002 and held key positions namely: Information Technology Department Head from 2018 to 2019, IT Operations Head 2017 to 2018, System Administrator from 2013 to 2017, Information Security Officer from 2012 to 2013, and Senior MIS Assistant from 2007 to 2012. Ms. Patal graduated from the Batangas State University with a degree in BS Computer Science and a Master in Business Administration at the Golden Gate Colleges.

EULALIA G. PEREZ
50, FILIPINO

Serves as the Chief Information Officer of the bank. She held key positions in Bangko Kabayan Inc. from 1993 to 2021 as Corporate Support Head, ISO/DPO, HRAD Manager, Past Due/LIL Manager, and EDP Manager. Ms. Perez graduated from Polytechnic University of the Philippines with a degree in BS Computer Data Processing and Management and a Master in Business Administration at the Batangas State University.

ROLDAN C. RAGOT
47, FILIPINO

Serves as the Corporate Support Group (CSG) Head of Bangko Kabayan. He was a previous HR Head of the bank from May 2016 until Feb 2017 and returned back to BK as CSG Head in Feb 2022 . He has a straight degree in business administration: Master in Business Management in Human Resource Management (University of Batangas); BS Business Administration in Human Resource Development Management and a Doctorate in Business Administration both at the Lyceum of the Philippines University Batangas. He is also a graduate of BS Psychology at the Far Eastern University Manila and got a Master of Arts degree in Education (MAEd) major in Educational Administration at the University of Batangas. He is a Certified Human Resource Associate and a Licensed Psychometrician.

VIC P. GUTIERREZ
40, FILIPINO

Serves as the Information Security Officer/Data Privacy Officer. He held key positions in Bangko Kabayan Inc. from 2004 to 2022 as Corporate Planning Head, Risk/Information Security Officer, Branch Administration and Development Officer, Application Support Specialist/Core Banking System Member, Auditor, and Branch Accountant/Microfinance Bookkeeper. Mr. Gutierrez graduated from Batangas State University with a degree in BS Financial Management and a Master in Business Administration.

JHONALYN R. GUTIERREZ
35, FILIPINO

Serves as the Treasury Officer of the bank. She is a Certified Public Accountant and a Certified Treasury Professional. She has been with Bangko Kabayan Inc. since 2008 and held key positions namely: Chief Accountant from 2015 to 2021, Accounting Assistant Manager from 2013 to 2015, Senior Accountant from 2010 to 2013, and Accountant 1 from 2008 to 2010. Ms. Gutierrez is a graduate of University of Batangas with a degree in BS Accountancy and a Master in Business Administration at the Batangas State University.

Performance Assessment Program for Senior Management

On an annual basis, each member of the Bangko Kabayan's Senior Management is being evaluated in accordance with the Bank's performance on achieving its organizational objectives and goals.

Performance Objectives and Targets

Organizational Objectives and Targets are being decided during the yearly Strategic Planning session which is used as basis in rating the performance of all the members of the organization the following year. Organizational objectives and targets usually include financial achievements in terms of Income Generation, Loan Portfolio Management and Deposit Generation. Apart from financial targets, other key result areas include service delivery, job performance and compliance to set policies and procedures. Depending on the job requirements, the factors above are assigned individual weights to determine the final rating of each individual.

Following the doctrine of command responsibility, rating of the members of the senior management is arrived at based on the rating of all the personnel under his/her supervision.

Members of the Senior Management are currently assessed against the following KRA:

President
- Bankwide PMS Rating

Chief Operating Officer
- Rating of Credit Group Head
- Rating of Inclusive Finance Group Head
- Rating of Branch Banking Group Head

Chief Finance Officer
- Rating of the Chief Accountant
- Rating of the Treasury Officer

Corporate Planning Head
- Bankwide PMS Rating
- Profitability
- Rating of Marketing and Communications Manager

Branch Banking Group Head
- Rating of Area Managers
- Rating of Branch Administration and Development Officer

Credit Group Head
- Past Due Ratio
- Rating of Credit Management Department (CMD)
- Rating of Credit Support Department (CSD)
- Rating of Remedial Management Unit (RMU)
- Rating of Real and Other Properties Department (ROPA)

Inclusive Finance Group Head
- Inclusive Finance Portfolio
- Portfolio at Risk Ratio (PARR)
- Audit Rating
- Rating of Inclusive Finance Personnel

Operations Group Head
- Rating of Operation Control Officer
- Audit Rating
- Rating of CPSU
- Rating of QUA

Internal Audit Head
- Accomplishment of Audit Plan
- Rating of the Board
- Share of IA on Recent BSP Findings
- SAFr Rating
- Staff Rating

Chief Compliance Officer
- Rating of the Board
- Share of Compliance in BSP Findings
- SAFr Rating
- Internal Audit Rating

Risk Officer
- Timeliness of Risk Assessment Report Delivery
- Rating of the Board
- SAFr Rating
- Share on BSP Findings
- Audit Rating

Chief Information Officer
- Rating of the Board
- Rating of IT Head

Corporate Support Group Head
- Rating of HR Head
- Rating of GSAD Head

ISO / DPO
- Rating of DSA
- Audit Rating
- Implementation of Information and DP Program

Treasury Officer
- Profitability
- Fund Management
- Reports Submission
- Audit Rating

MANAGEMENT COMMITTEES

Management Committee (ManCom)

The Management Committee provides a mechanism to engage within the limits set by board, in decision making, relating to the transaction routine, administrative matters, oversight and communication of important organizational matters.

Members:
1. CEO/President
2. Chief Operating Officer
3. Chief Financial Officer
4. Corporate Planning Head
5. Branch Banking Group Head
6. Credit Group Head
7. Inclusive Finance Group Head
8. Operations Group Head
9. Chief Information Officer
10. Corporate Support Group Head
11. Information Security Officer / Data Privacy Officer
12. Treasury Officer
13. Area Heads
14. Branch Administration and Development Officer
15. HR Head
16. IT Head
17. Chief Accountant
18. Project and Policy Officer - Designated Secretary

Resource Person
1. Internal Audit Head
2. Risk Officer
3. Chief Compliance Officer

Personnel Committee (PerCom)

The Personnel Committee provides direction and decision-making for employee policies, compensation and benefits, legal compliance and staff evaluation and trainings. The Personnel Committee ensures that all employees have the training and tools to perform their jobs, are held accountable for achieving goals, and are compensated appropriately for their efforts.

Members:
1. Corporate Support Group Head
2. HR Head
3. Operations Group Head
4. Labor and Employee Engagement Specialist - Designated Secretary

Asset and Liability Committee

The Asset/Liability Committee (ALCO) has been established to assess the adequacy and monitor the implementation, of the Bank and Company's Asset/ Liability Management policy and related procedures. The ALM Policy will include specific policies and procedures relating to (i) interest rate risk, (ii) market/ investment risk, (iii) liquidity risk, (iv) credit risk, and (v) capital risk.

Members:
1. President
2. Chief Financial Officer
3. Chief Operating Officer
4. Credit Group Head
5. Treasury Officer - Designated Secretary

Executive Credit Committee (ExeCreCom)

In line with the Bank's thrust of maintaining a high quality, sound and profitable loan portfolio, the Executive Credit Committee was formed to evaluate and approve loan accounts within its credit approval authority. They are responsible to review credit policies and procedures, recommend changes, if necessary. To ensure continues effectiveness of loan product, review of performance are done to act/resolve credit risk limit breached as discussed with the risk board committee.

The Committee carries out the following responsibilities:
(1) Reviewing and approving credit decision that may pose material risks to the Bank's business strategy or reputation,
(2) Reviewing the financial results of the Bank and determining action plans and
(3) Reviewing and approving all loans and credit transactions with the scope of its authority.

Members:
1. President - BOD Member
2. Chief Financial Officer
3. Chief Operating Officer
4. Credit Group Head
5. Credit Management Head

Business Continuity Plan Committee

BCP Committee leads the implementation of the crisis management and business recovery activities of the bank to ensure that disruptions in banking operations will be mitigated even with the occurrence of incidents that will greatly affect the bank's daily activities. It is compose of two teams, the Crisis Management Team and Business Recovery Team. BCP Committee is headed by Chief Operating Officer or in his absence by the Chief Financial Officer.

Crisis Management Team coordinates crisis management activities and reports to Top Management, while Business Recovery Team disseminates information and implements recovery strategies.

Member of Crisis Management Team:
1. Branch Banking Group Head
2. Chief Compliance Officer
3. HRD Head
4. GSAD Head
5. IT Head
6. Treasury Officer
7. Inclusive Finance Group Head
8. Operations Control Officer
9. Security and Safety Officer

Members of Business Recovery Team:
1. Corporate Planning Head
2. Corporate Support Group Head
3. Credit Group Head
4. Risk Officer - Designated Secretary
5. Chief Accountant
6. Marketing and Communications Manager
7. Remedial Management Unit Head
8. ROPA Head

Retirement Committee

The Retirement Committee ensures the implementation of the rules and procedures set forth on Bank's policy on Retirement and Death Benefit. They also interpret the meaning, coverage and application of the provisions of the Retirement Plan.

Members:

1. Chief Financial Officer
2. Chief Operating Officer
3. Corporate Support Group Head
4. Treasury Officer
5. HR Head

Consumer Protection Committee

The Consumer Protection Committee is responsible for developing the bank's consumer protection strategy and establishing an effective oversight over the bank's consumer protection program.

Members:

1. Chief Financial Officer
2. Chief Compliance Officer
3. Risk Officer
4. Corporate Planning Head
5. Consumer Affairs Head - Designated Secretary

ORIENTATION & EDUCATION PROGRAM

Bangko Kabayan believes that the continuing development of people behind its operations is imperative to guarantee its success. Thus, Bangko Kabayan designed a training program for its Board of Directors and Senior Management to make sure that they continuously possess qualifications for the position they are handling and that they are kept abreast with the different developments in the banking as well as to keep them updated with the different developments specifically in the banking industry, and the financial economy, in general. At a minimum, each of the members of the BOD must have attended the Corporate Governance and Risk Management Seminar which should be taken within six (6) months upon appointment from a BSP accredited organization. For continuing professional education, the members of the BOD may opt to attend any of the following professional trainings:

- Professional Director's Program
- Enhancing Audit Committee Effectiveness
- Finance for Directors
- Advance Corporate Governance Training
- Legal Liabilities and Proceedings affecting banks and their directors
- Anti-Money Laundering Act

In the case of senior management, at a minimum, they should have attended the Anti-Money Laundering Act Training Program and the Middle Management Leadership Program or its equivalent or the Leadership and Management Training Program.

Other trainings that they may be required to attend depending on the requirements of their jobs are as follows:

- Labor Relations, Human Relations and Productivity
- Strategic Planning and Management
- Strategic Risk Management
- Effective Auditing Techniques and Methodologies
- Treasury Management
- Disaster Recovery and Business Continuity Management
- Customer Relations Management
- Compliance Management System Assessment Seminar
- Updates on various regulations
- Trends on Information Technology

SUCCESSION PLAN

Bangko Kabayan believes that human resource plays an integral part in the achievement of its vision. It recognizes the importance of enhancing the leadership culture and managing its top talents to continuously carry out the bank's mission and objectives, for the greater good of the organization and the community it serves.

Bank leadership is shared among its Board of Directors and the senior management. The Board of Directors (BOD) is composed of nine (9) members, three (3), of whom are independent directors. Furthermore, majority of the board members are non-executive directors. This promotes an environment that allows members of the board to challenge actions and proposals of management while exercising shared responsibility in managing the business.

The members of the BOD are elected by the stockholders from a host of qualified persons, based on the requirements of the BSP. Candidates for the BOD position are selected based on a) the qualification of the candidates, and b) the hiring standards of the Bank. To ensure a healthy exchange of views and objective judgment, professionals with various expertise are considered to guide the strategic direction of the bank.

The regular term of a director shall be from the date of his/her election to the next annual meeting of stockholders of the Bank or until his/her successors shall have been elected and qualified to take his/her place at said annual meeting. Unless a director shall sooner resign, be removed from office or becomes unable to act by reason of death, disqualification, or otherwise, he/she shall hold office during the term for which elected and until his/her successor is elected and qualified.

The appointment of Senior Management members is also subject to hiring standards of the bank and on the rules set by the BSP. They must also uphold the vision and core values of Bangko Kabayan.

The Senior Management, on the other hand, is composed of the following positions:

a. President / Chief Executive Officer
b. Chief Operating Officer
c. Chief Financial Officer
d. Corporate Planning Head
e. Branch Banking Group Head

f. Credit Group Head
g. Inclusive Finance Group Head
h. Operations Group Head
i. Internal Audit Head
j. Chief Compliance Officer
k. Risk Officer
l. Chief Information Officer
m. Corporate Support Group Head
o. Information Security Officer / Data Privacy Officer
p. Treasury Officer

The bank acknowledges that any sudden movement/disruption in its leadership core will have a significant impact on the bank's operations and may hinder the achievement of its goals.

To ensure its readiness for such movements, the bank designed a succession plan covering the following items:

a. Key Result Areas and Key Competencies and Skills
Key result areas, includes but not limited to portfolio and deposit volume targets, portfolio management, financial ratios, processing turn-around time, etc., for each position were identified. Similarly, education, experience and competencies required were also laid down. This is to ensure that the most suited successor can be put in place.

b. Criticality and the vacancy risk of the positions
The position's overall impact in the achievement of the bank's goals, as well as the imminence of losing the incumbent were also determined. These information are vital in identifying the priority positions needing immediate replacements.

The position's criticality is assessed using the degree or complexity of skills or knowledge that the incumbent must possess while the vacancy risk is assessed based on the incumbent's age, marketability of skills and experience, tenure, life events or circumstances, future plans of the incumbent.

c. Management Development Program (MDP)
The management development program is a plan that aims to prepare the potential successors in assuming the position. It outlines the training programs that a potential successor must go through to augment the competencies that s/he currently possesses. It is a combination of classroom and practical trainings, which the potential successor, may take in a defined span of time.

RETIREMENT POLICY

Board of Directors

The composition and term limits of the BOD is in line with the regulations set forth by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission ensuring an appropriate structure of corporate governance in place. For independent directors, the maximum term limit is nine (9) years to avoid too much familiarity and therefore keep the independence and impartiality of the independent director. For the non-independent director, no maximum term limit nor age is set provided that the director is (a) physically and mentally capable to perform his/her functions as director, (b) keeps oneself abreast on the latest policies and regulations governing the operations of the bank and (c) able to perform his/her responsibilities as director effectively for the benefit of the bank.

Officers and Other Employees

1. Eligibility for Membership
   a. Membership in the Employee Retirement Plan shall be automatic for all officers and employees of Bangko Kabayan who are considered having regular employment status.
   b. Membership will commence retroactively on the first day of the month coincident with or next following his attainment of regular employment status.

2. Normal Retirement Benefit
   a. The normal retirement date of an employee shall be the first day of the month coincident with or next following attainment of age sixty (60) with at least five (5) years of credited service.
   b. The normal retirement benefit shall be a sum equal to 150% of the employee's salary for every year of credited service as of normal retirement date.

3. Early Retirement Benefit
   a. With the consent of the management, an employee may opt to retire prior to his normal retirement provided he has completed at least ten (10) years of credited service regardless of the employee's age
   b. The early retirement benefit shall be a sum equal to a percentage of the employee's salary for every year of credited service in accordance with the following schedule:

Years of Credited Service	Retirement Percentage
Less than 10 years	0%
10 to 14 years	100%
15 to 19 years	125%
20 years or more	150%

4. Late Retirement Benefit
   a. An employee who is permitted by the management to continue to work on a yearly extension basis beyond his normal retirement date shall continue to be eligible for the Retirement Plan up to his late retirement date. The late retirement date of such employee shall be the first day of any month after attaining his normal retirement date but not beyond age 65.
   b. The late retirement benefit shall be a sum equal to 150% of the employee's salary for every year of credited service as of late retirement date.

5. Dismissal for Cause
   An employee who is dismissed by the Bank for cause shall not be entitled to any benefits under the Employee Retirement Plan.

Bangko Kabayan believes in the moral obligation to help prepare employees who devoted their lives in productive work to lead an enjoyable retirement life. The Bank has provided a noncontributory Employee Retirement Plan which covers the granting of retirement benefit for all eligible employees of Bangko Kabayan.

REMUNERATION POLICY

The members of the board of directors will fix their compensation and reasonable per diems for attendance in meetings. Provided, that the compensation other than per diems shall have the prior conformity of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. Provided further, that the amount shall not be more than ten percent (10%) of the net income before tax of the Bank during the preceding year. Additional remuneration is given as it is necessary for the bank to continue to recruit and retain highly qualified Directors. A reflective of the importance given by the Bank on Corporate Governance.

With regards to the senior management, each of the position in the bank goes through the process of job evaluation wherein the following factors are determined:

- Span of Control (30%);
- Knowledge and Skills (30%)
- Decision Making (40%)

The total points of each position determine the job level of that particular position which is used in determining the equivalent salary based on the salary structure which was arrived at by looking at the banking industry compensation as a whole, with focus on local banks to assess the spectrum of salary range for critical positions. This allows us to assess the risk and come up with a decent competitive positioning in the market, since the landscape of the competition has changed, that is at the same time sustainable and affordable.

DIVIDEND POLICY

Dividends declared by Bangko Kabayan are taken from the retained earnings of the bank and are governed by the policies set by the Bangko Sentral ng Pilipinas. The declaration of dividends, both cash and stock, are approved by the majority of the Board of Directors, subject to a ratification of the majority during the annual stockholder's meeting. No dividend was declared for year 2022.

RELATED PARTY TRANSACTION POLICY

The Bank allows transactions with related parties. However, BK ensures such transactions are conducted in an arm's length manner or in the ordinary course of business. Each Director, Stockholder or Officer is responsible to declare any Related Party Transactions and the material interest that they, or an immediate family member, may have with the bank.

Relevant information with respect to the transactions like, description and material terms and condition, value and share of the related party, related party's involved in the transactions and any potential reputational risk issues that may arise, are disclosed in the contract.

The Corporate Governance Committee review and endorse for board approval material related party transactions.

The Board assures that all terms such as price, commissions, interest rates, fees, tenor, collateral requirement, contracts of related party transactions are within standard, as if they were applied to non-related parties. A material aggregate amount for a period of twelve (12) months from January to December of the financial year are set and approved by the Board as basis of the amount subject for review and approval of the board. The Bank shall be guided by the following internal RPT Limits, for monitoring purposes, subject to the existing and separate prudential limits for DOSRI, Subsidiaries, and Affiliates.

1. Individual RPT Limit: 20% of the Bank's Equity
2. Aggregate RPT Limit: 50% of the Bank's Equity

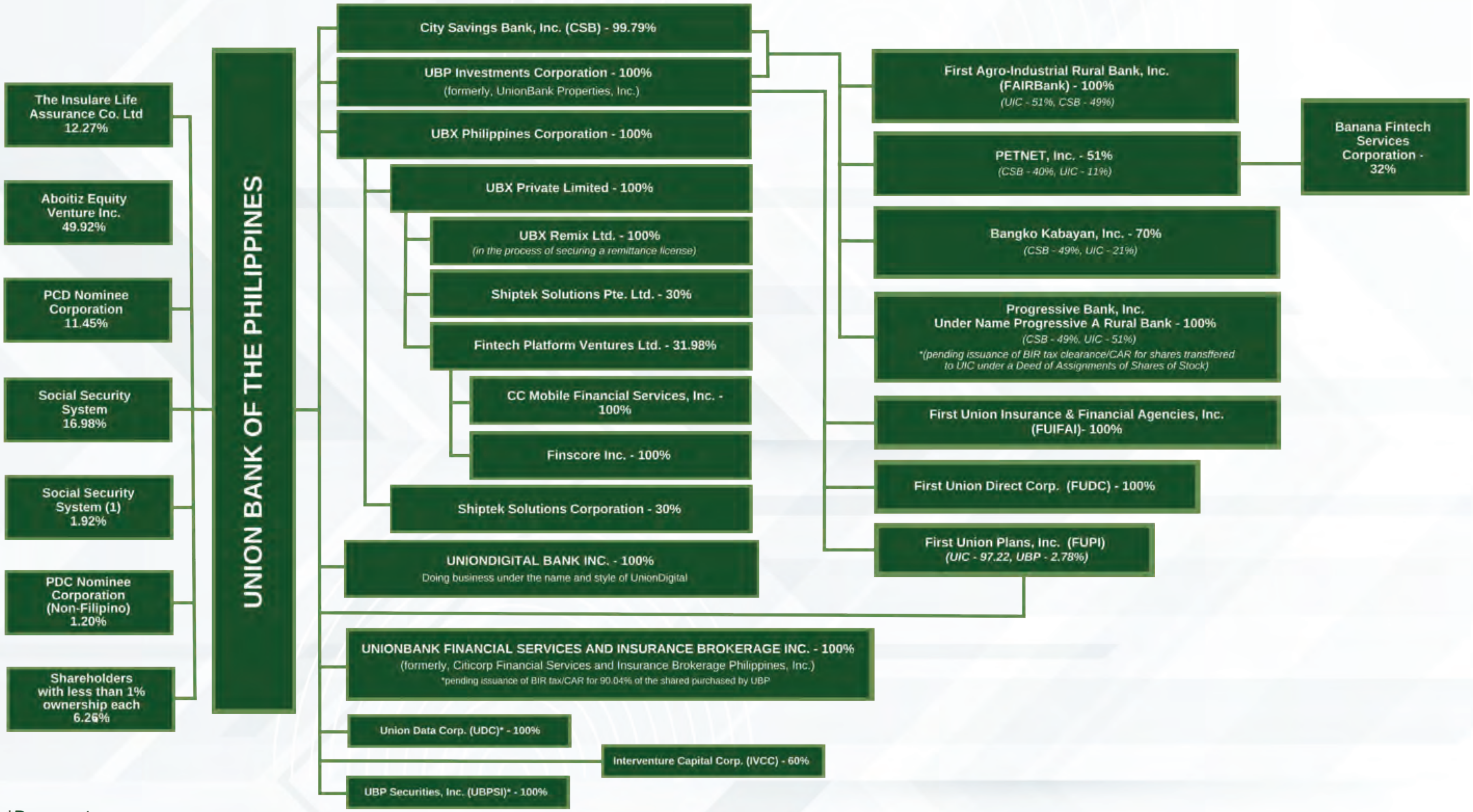
The members of the board, stockholders and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have financial interests in any transactions or matter affecting the bank. Directors and officers with personal interests on the related party transactions abstain from the discussion, approval and management of such transaction or matter affecting the bank.

For restitution of losses or other remedies for abusive RPTs; Personnel, officers or directors, who have been remiss in their duties in handling Related party transaction shall be accountable on losses and opportunity costs incurred by the bank arising from the transactions that are not engaged on arm's length terms.

For the year 2022, the Material Related Party Transactions approved by the Board, existing and with balance as of December 31 are as follows:

Related Party	Type	Nature of Transaction	Terms	Aggregate Amount in Php Million
Union Bank of the Philippines	Ultimate Parent Company	Deposits		89.7
		Credit Line Facilities	No Outstanding Availment	170
Union Bank of the Philippines (Trust and Investment Group)		Retirement Fund Agreement		42.89
Aboitiz Power Corporation	Affiliates stockholders and related parties under common ownership	Investment	Bonds with coupon interest of 5.28% due on October 10, 2023	9.5
			Bonds with coupon interest of 3.82% due on March 16, 2023	50

Conglomerate Map



**Dormant.*

SELF-ASSESSMENT FUNCTIONS

Audit Committee

The Board of Directors Audit Committee (BoDAC) shall be composed of at least three (3) members of the BOD, shall have accounting, auditing or related financial management expertise or experience, who are task to assist the Board of Directors (BOD) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, and the audit process of both internal and external auditor. In addition, the Audit Committee is mandated to monitor and evaluate the adequacy and effectiveness of the Bank's systems of internal control system.

Among the duties and responsibilities of the Audit Committee are:

a. Oversee the financial reporting framework.
- Oversee the financial reporting process, practices, and controls.
- Ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

b. Monitor and evaluate the adequacy and effectiveness of the internal control system.
- Oversee the implementation of internal control policies and activities.
- Ensure that periodic assessment of internal control system is conducted to identify the weakness and evaluate its robustness considering BK's risk profile and strategic direction.

c. Oversee the internal audit function.
- Responsible for the appointment/selection, remuneration, and dismissal of internal auditor.
- Review and approve the audit scope and frequency as well as annual budget of the IA Department.
- Ensure that audit scope covers the review of the effectiveness of the BK's internal controls, including financial, operational and compliance controls, and risk management system.
- Review and approve the performance and compensation of the IAD Head.

d. Oversee the external audit function.
- Responsible for the appointment, fees, and replacement of external auditor.
- Review and approve the engagement contract and ensure that the audit scope likewise cover areas specifically prescribed by the BSP and other regulators.

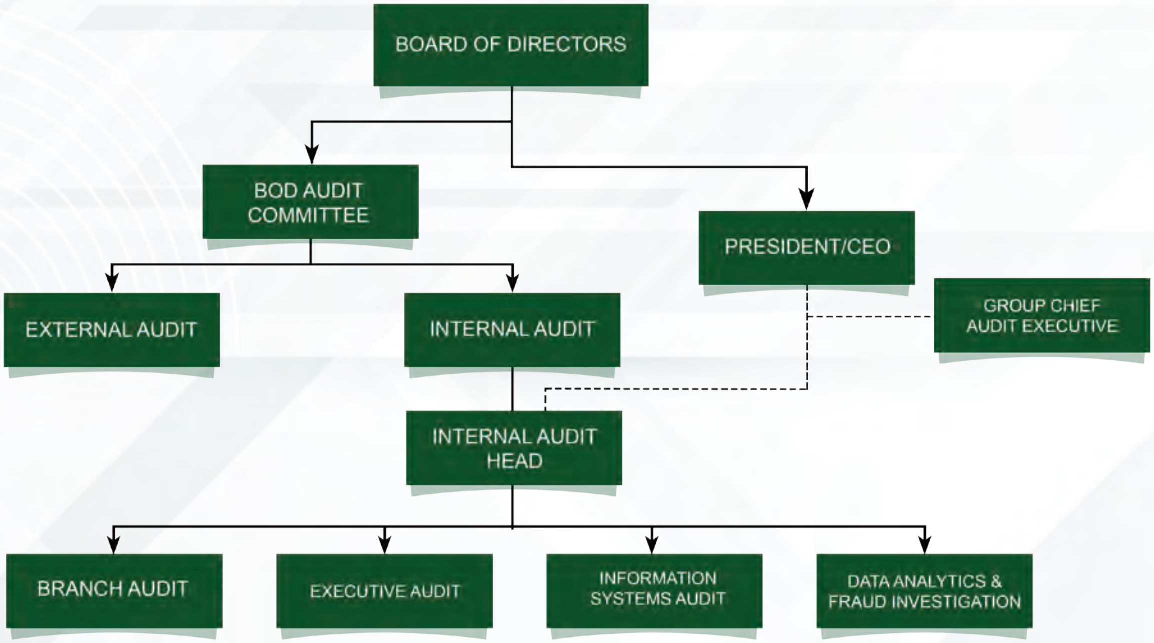
Oversee implementation of corrective actions.
- Receive key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.

Investigate significant issues/concerns raised.
- With explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.

Establish whistleblowing mechanism.
- Establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action.
- Ensure that arrangements are in place for the independent investigation, appropriate follow- up action, and subsequent resolution of complaints.

Internal Audit

The authority to carry out the internal audit activity is vested in the Internal Audit Department, which reports directly to the Board of Directors Audit Committee (BoDAC). The Internal Audit Department (IAD) headed by the Internal Audit Head reports functionally to the Board and administratively (i.e. day to day operations) to the President. The IAD is entirely independent of all other organization units of the Bank. It operates under the direct control of the BoDAC and is given an appropriate standing within the Bank to be free from bias and interference. BoDAC



and the Internal Audit Head functionally meet a minimum of four (4) times a year and as many times as the committee deems necessary with regards to the IA work programs, reports, and status of recommendations.

Parent Audit Committee also created a Subsidiary Governance IA Unit for its oversight role to identified subsidiaries and affiliates' internal audit activities. This would ensure the consistency and alignment between UBP and its subsidiaries and affiliates with respect to internal audit strategies, methodology, scope, and quality assurance measures, as deemed applicable. The internal audit activities of the subsidiaries and affiliates are reported to UBP's Board of Directors through the Audit Committee of UBP.

Internal Audit provides an independent and objective review and advisory service to provide assurance to the Board of Directors that Bangko Kabayan's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective and ethical manner, and assist management in improving the entity's business performance. The ability of BKI's internal audit activity to achieve desired objectives depends largely on the independence of its audit personnel. Generally, the position of the auditor within the organizational structure of the institution, the reporting authority or audit results, and the auditor's responsibilities indicate the degree of auditor independence. The board should ensure that IA does not participate in activities that may compromise its independence. The internal audit activity may, however, engage in consulting activities that provide advice and direction in areas for which the internal auditor possesses the necessary skills and knowledge. IAD conducts an assurance and advisory engagements based on a forward-looking risk-based audit plan that is consistent with the Bank's strategic plans and priorities.

To achieve an acceptable level of performance, IA is guided by the professional practices framework issued by The Institute of Internal Auditors (IIA) and developed standard for information technology auditing by The Information Systems Audit and Control Association (ISACA). Both internationally known institutions.

The department is divided into four (4) units namely the Branch, Executive, Information Systems Audit units, and the newly created Data Analytics and Fraud Investigation Unit. Branch Audit Unit is primarily responsible in conducting the operations and compliance audit of branches while the Executive Audit Unit is in charge of the audit of the executive or head office business units. On the other hand, Information Systems Audit Unit is responsible for the audit of Information Security and Technology controls that support BK's business operations. Lastly, Data Analytics and Fraud Investigation (DAFI) Unit is in-charge to conduct investigations in aid of administrative or criminal proceedings in compliance with Code of Conduct. DAFI unit would also expand the continuous auditing capability of IAD.

As BK embarks towards its digital transformation, IAD has undertaken initiatives to adapt and expand its processes, and to provide relevant and timely recommendations to the Bank. Competency of auditors is continuously enhanced to adopt with the bank's requirements.

External Audit

The Bank's external auditors on the other hand examine its financial statements and express an opinion on whether the numbers reported in the Bank's Balance Sheet, Income Statement, and other financial statements are fairly presented in accordance with financial reporting standards. BoDAC recommends the appointment, re-appointment, and change of external auditors. External audit services are currently provided to the Bank by SGV & Co (EY Philippines).

Compliance

Compliance Function is an independent function that defines, advises on, monitors and reports on the Bank's compliance risk. The compliance function facilitates effective management of compliance risk by:

1. Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on the developments in the area;
2. Apprising the Bank's personnel on compliance issues, and acting as a contact point within the Bank's compliance queries from its personnel;
3. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
4. Reviewing and assessing the compliance risk associated with the Bank's business activities, including new product and business units.
5. Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments.
6. Monitoring and testing compliance by performing sufficient and representative compliance testing;
7. Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

Status

a. Independence

i. The compliance function is independent from the business activities of the Bank.
ii. It is given sufficient resources to carry out its responsibilities on its own initiative.
iii. It has the right to conduct investigation and is free to report to Senior Management, Audit Committee and/ or the Board of Directors material breaches of the Compliance Program and/or laws, rules and standards, without fear of retaliation or disfavor from Management or other affected parties.
iv. It has access to all operational areas as well as any records or files necessary enabling it to carry out its duties and responsibilities.

b. Authority

To carry out its Compliance responsibilities effectively, the CCO:

i. Has direct and unrestricted access to any records, documents, books of accounts, and information it needs, for the performance of his/her responsibilities: and
ii. Has the right to require any member of the Management and Staff to promptly supply information and/or explanations as may be needed to carry out his/her functions.

c. Reporting Lines

The Chief Compliance Officer (CCO) is appointed by the Board of Directors subject to the confirmation of the BSP. He / She is functionally and administratively under the direct supervision of the Board of Directors (through the Corporate Governance Committee) and the President, respectively.

d. Relationship with Other Units of the Banks

In addition to the specific collaboration, CCO, Chief Audit Head and Risk Officer exerts effort to ensure good coordination and continued cooperation.

The CCO seeks legal advice from the Legal Officer on banking and corporate laws compliance matters. As necessary, the Legal Officer also arranges consultation with external experts. The CCO retains primary responsibility for relations with the regulatory agencies and is involved in responding to external compliance-related inquiries.

The parent bank Compliance and Corporate Governance Office has Subsidiaries oversight on the Compliance function of the bank to ensure consistency and alignment between UBP and its subsidiaries and affiliates with respect to compliance with the regulatory agencies and reporting requirements.

The Compliance System is also subject to periodic reviews by the Internal Audit Department.

CONSUMER PROTECTION PRACTICES

Bangko Kabayan designed this policy to protect the interests of the consumer, promote the general welfare of the customer and to establish standards of conduct for business and its employees, by adopting the following measures:

1. Protection against deceptive, unfair and unconscionable acts and practices.
2. Provision of information and education to facilitate sound choice and the proper exercise of rights by the consumer.
3. Provision of adequate rights and means of redress
4. Provision of a reporting system/avenue that will allow the bank customers' to raise their concerns whether complaint or request with regards to the bank's products, services as well as its employees.

The Board of Directors is primarily responsible for approving and overseeing the implementation of the consumer protection policies as well as the mechanism to ensure compliance with the said policies. The Board is also responsible in monitoring and overseeing the performance of the Senior Management in managing the day to day consumer protection activities to ensure the delivery of effective recourse to the consumer. The Senior Management on the the hand is responsible for the implementation of the consumer protection policies duly approved by the Board as well as the mechanism to ensure compliance and implementation of the said policies.

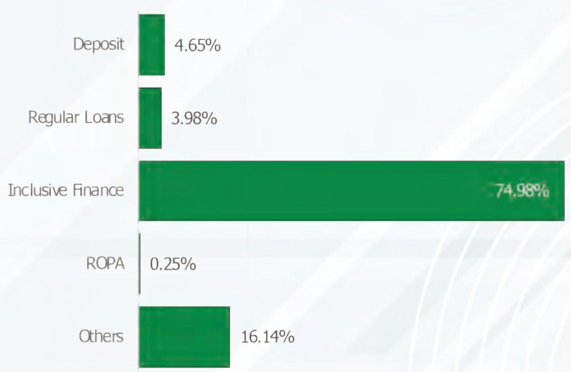
The Consumer Protection Risk Management Framework of the bank is aligned to the bank's Code of Conduct where it ensure that each employee is informed and reminded of acceptable norm of behavior and what constructive actions need to be done to ensure productivity, efficiency and established values are sustained to be able to attain the mutual interest of the employee, the bank and its clientele.

Process Flow of Consumer Assistance Management

The Consumer Assistance Officer (CAO) receive and acknowledge consumer concerns through phone, email, Facebook, and branch walk-ins. Record concerns in a database, make an initial review and investigate. Evaluate and process the concerns, provide official reply to the consumer. Request client feedback, generate and submit report to the Head CAO for consolidation and recommendation on how to avoid recurring complaints and suggestions for process/personnel competency improvement, as needed.

Bangko Kabayan Inc. ensures that applicable terms and conditions of the product or services are explain in a manner that clients understand the terms of contract, including the right of consumer protection. The bank adopts the Consumer Assistance Management Systems, a policy to protect the consumer. It includes a provision for an avenue that will allow bank customers' to raise their concern either it is complaint and request. Consumer Assistance Officer (CAO) in each unit are designated, to handle customer concerns and elevate the same to Consumer Protection Committee if it cannot be resolves at his end. The Head CAO is the lead implementor of the CAMS, he monitors complaints received and escalate it to concerned unit for resolution. Ensure that recommended solutions to avoid occurrence, and the suggestions for process or personal competency needing improvement are implemented.

Summary of Client Concern



CORPORATE SOCIAL RESPONSIBILITY

In line with its mission of creating financial inclusion and promoting economic development, Bangko Kabayan is committed to investing and developing communities to create brighter prospects for its people. Taking this true to heart, our employees rolled out 25 Bayani ng Komunidad projects through Bangko Kabayan Foundation Inc. (BKFI) which are mainly centered on the following:

1. Covid responses;
2. Hunger response through Digital Challenge for Companies, a campaign launched by Action Against Hunger in partnership with the Philippine Business for Social Progress (PBSP). Through teamwork, perseverance, and the spirit of charity, the 10-member bicycle team of Bangko Kabayan Foundation, Inc. (BKFI) was able to donate 2,583 kilometers in four weeks to fight hunger in the Philippines;
3. Installation of solar lights in dark barangay roads to help prevent accidents and crimes in different parts of Batangas;
4. Brigada Eskwela Activities;
5. Eco bricks Projects

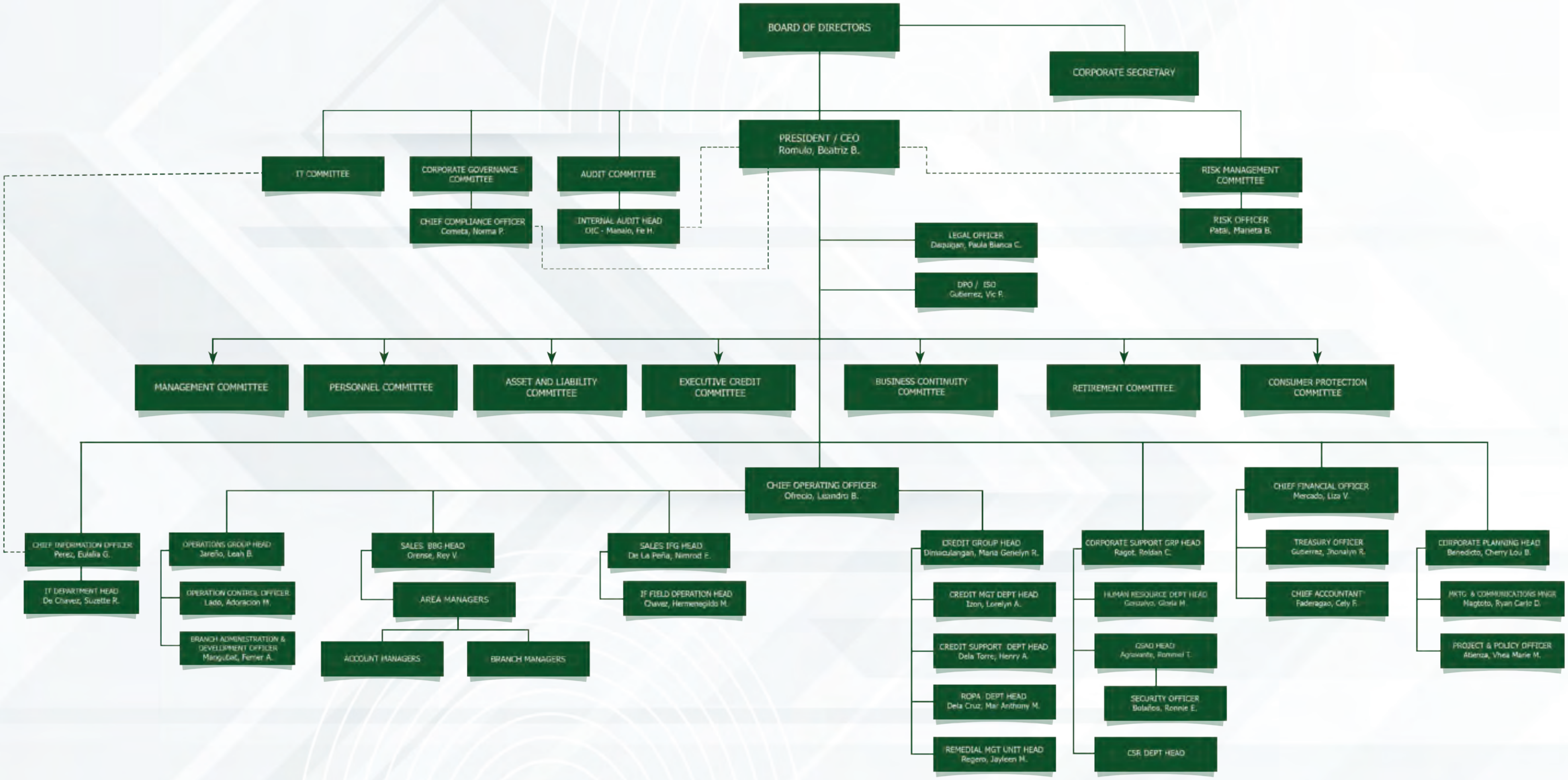
Overall, BK was able to transform 795 sacks of trash into Eco brick projects. The combined activities of the foundation last year directly benefited a total of 40,755 individuals in the communities we serve.

We are happy to announce that BKFI received its second XTrash Trophy Award last November 2022 wherein we were able to collect 362 kilos of trash for the X-trash challenge.

BKFI also sponsored and conducted face-to-face Entrep Eskwela sessions in 4 batches facilitated by the bank's Entrep Eskwela Guru which was participated by 88 micro-entrepreneurs.

Lastly, with the bank's Annual Christmas Outreach facilitated by BK employees in different communities in Batangas, Laguna, and Quezon areas, BK was able to reach more or less 500 beneficiaries. Activities include reverse caroling with Noche Buena Package, distribution of Pangkabuhayan packages, and providing school supplies and Jollibee meals to indigenous students.

Organizational Structure



*Incumbent: Javier, Glady T. / HR
*Incumbent: Diomampo, Emmanuel T. / GSAD

Major Stockholders

	Name of Stockholder	Citizenship	No. of Shares Subscribed	% to Total	Voting Status
1	**City Savings Bank, Inc.**	Filipino	1,801,914	49.00%	Qualified to vote
2	**UBP Investments Corporation**	Filipino	772,256	21.00%	Qualified to vote
3	**Ganzon, Maria Teresa M.**	Filipino	521,042	14.17%	Qualified to vote
4	**Ganzon, Francis S.**	Filipino	256,748	6.98%	Qualified to vote
5	**Ozaeta, Gregorio O.**	Filipino	216,438	5.89%	Qualified to vote

PRODUCTS & SERVICES

DEPOSIT PRODUCTS

Regular Savings
Initial cash deposit of PHP 500.00. Must maintain a minimum average daily balance of P1,000.00.

Basic Savings
Initial deposit of P50.00 and maximum balance of P50,000.00. Offered to all individuals whose total assets fall under micro with no existing deposit yet to BK.

Regular Current Account
Initial cash deposit of P5,000.00 and must maintain a minimum average daily balance of P5,000.00.

Automatic Transfer Account
A Current Account that has a corresponding Savings Account that is debited to fund checks issued by client. Initial cash deposit of PHP 10,000.00 with passbook. Account shall only earn interest if the maintained average daily balance is at least P20,000.00.

BK Value Checking Account
A personal checking account with a minimum requirement and lower maintaining balance.

Regular Time Deposit
An interest-bearing deposit evidenced by certificates of Deposit, which have specific maturity dates (ranging from 30, 60, 90, 120, 180, 360 days and above). Minimum placement of P10,000.00.

Time Deposit Plus
A long term deposit with interest rate twice the existing rate of regular time deposit.

Bibo Kid Savings
Offered to children aged 7 to 12 years old. Initial cash deposit of at least P100.00.

REGULAR LOAN PRODUCTS

Agricultural Loan
Loans for the cultivation, development and improvement of agricultural land, raising of poultry and livestock and improvement of fishpond, and other development activities related to agriculture. Minimum loanable amount shall be P1,000,000.00 with Maximum loanable amount shall no exceed Single Borrower's Limit

ANI Plus
Cater the financial needs of borrowers whose business is agricultural in nature but does not qualify to either ANI or other agricultural loan product features. Loanable amount ranges from P200,000 to P900,000.

SME Loan
Granted to small and medium enterprises engaging in trading business, manufactuing or services. Minimum loanable amount of P300,000 with a maximum loanable amount not exceeded Single Borrower's Limit.

Housing Loan
Available to individuals requiring funds to finance the following: (a) Acquisition of residential lot; (b) Acquisition of residential house and lot; (c) Construction of residential house on lot already owned or acquired; and (d) Renovation of house. The maximum loanable amount shall not be more than seventy percent (70%) of the appraised value of the offered collateral are properties other than the land where the house shall be constructed. The maximum term is five years with ten year factor.

Transport Vehicle and Equipment Loan
To finance an acquisition of brand new and second hand transport vehicle, either commercial or private use and equipment. Amount to be financed is 80% of the project cost/cost of vehicle to be purchased and a minimum loan term is 1 year.

Other Regular Loan Products
Loans to Private Corporations, Housing Loan End User with Buy Back, Back to Back Loan, SSS Loan, ADB Loan, and Bills Purchase Line for Loans

SUPERVISED CREDIT PRODUCTS

ANI LOAN
The facility aims to extend financial services to small farmers including small crop growers, small poultry and livestock raisers, small fisher folk including fisherman and fishpond operator.

Kabayan MSE Loan
To finance additional working capital or asset acquisition of micro-enterprise and newly acquired small enterprise clients.
Minimum loan amount of P50,000 and maximum of P500,000.

Kabayan MSE Plus
Additional working capital Procurement of equipment/machinery Construction of building or improvement for business purpose other business purposes. Minimum loan amount of P501,000 and maximum of P1,500,000.

Other Supervised Credit
Educational Loan, Multi-Purpose Loan, Business Builder Loan, and Home Improvement Loan

MICROFINANCE PRODUCTS

Kabayan Loan
This caters to the banking needs of micro-entrepreneurs with established businesses and with business assets. The specific purpose of the loan is to finance the additional working capital requirements. Loan amount varies minimum of P10,000 and maximum of P150,000.

Kabayan Plus
For financing of working capital or for the acquisition of fixed assets of graduated Kabayan borrowers. Loan amount varies minimum of P150,000 and maximum of P300,000.

Kapitan Loan
A Group Lending Program. This is a product offered to the entrepreneurial poor, especially women, so that they can have access to credit and other financial services. Minimum loan amount of P5,000 and maximum of P150,000.00, subject to the following limits per cycle. All KAPITAN loans are payables in 25 equal weekly installment.

Gabay Housing Loan
To finance improvement (major and minor) on the structure of home, but not limited to replacing doors, windows, and roofs; adding rooms; installing utilities; toilet facilities; painting; repairing wall; etc. Loanable amount varies minimum of P10,000 with a maximum of P150,000.

OTHER SERVICES

ATM PROVIDER
DBP, i2i Mobile ATM (selected branches)

LOAN PAYMENT CHANNELS
GCash, Palawan Remit to Account, PayMaya, PesoNet, UBP Pay, ECPay

REMITTANCE SERVICES
i2i Remittance, Palawan Express Padala, PeraHub, True Money, and Western Union Money Transfer

FUND TRANSFER

BILLS PAYMENT

CORPORATE WEBSITE

www.bangkokabayan.com features the following:

ABOUT US **NEWS** **ADVISORIES**

DEPOSIT PRODUCTS **LOAN PRODUCTS** **OTHER SERVICES**

PROPERTIES FOR SALE **FINANCIAL REPORTS**

CAREERS **BRANCH DIRECTORY** **CONTACT US**

BRANCH DIRECTORY

Head Office
Santiago Street, Poblacion Ibaan, Batangas
info@bangkokabayan.com
(043) 311-1323 / (043) 311-1420 /
(043) 311-1152

Batangas

Agoncillo
J. Mendoza Street, Poblacion
Agoncillo, Batangas
agoncillo@bangkokabayan.com
(043) 740-1802

Balayan
Union St., Brgy. 5, Balayan, Batangas
balayan@bangkokabayan.com
(043) 740-3091

Batangas City
Romero Dy Bldg., P. Burgos Street
Poblacion 10, Batangas City
batangas@bangkokabayan.com
(043) 300-1228

Calaca City
Marasigan Street, Poblacion 5
Calaca, Batangas
calaca@bangkokabayan.com
(043) 223-5221 / (043) 419-2705

Calatagan
Ayala Street, Poblacion 3
Calatagan, Batangas
calatagan@bangkokabayan.com
(043) 419-0212

Cuenca
National Road, Poblacion Cuenca, Batangas
cuenca@bangkokabayan.com
(043) 342-1481

Ibaan
Santiago Street, Poblacion Ibaan, Batangas
ibaan@bangkokabayan.com
(043) 311-1303 / (043) 311-2804

Lemery
National Hi-way, Brgy. Palanas
Lemery, Batangas
lemery@bangkokabayan.com
(043) 740-6897 / (043) 411-0893

Lipa City
Laguerta Bldg., P. Torres Street, Brgy. 11
Lipa City, Batangas
lipa@bangkokabayan.com
(043) 726-0295 / (043) 233-2483

Lobo (Branch Lite)
P. Burgos Street, Poblacion Lobo, Batangas
lobo@bangkokabayan.com
(043) 403-6529

Mabini
Poblacion, Mabini, Batangas
mabini@bangkokabyan.com
(043) 774-4420

Nasugbu
Mulingbayan Street, Brgy. 9
Nasugbu, Batangas
nasugbu@bangkokabayan.com
(043) 233-2604

Rosario
Carandang Street, Poblacion C
Rosario, Batangas
rosario@bangkokabayan.com
(043) 321-1134

San Jose
Maicor Bldg., Makalintal Avenue Taysan
San Jose, Batangas
sanjose@bangkokabayan.com
(043) 726-2139 / (043) 233-2587

San Juan
Gen. Luna Street, Poblacion
San Juan, Batangas
sanjuan@bangkokabayan.com
(043) 575-3771 / (043) 233-2622

San Pascual
2680 National Road, Brgy. San Antonio
San Pascual, Batangas
sanpascual@bangkokabayan.com
(043) 727-1120 / (043) 233-2592

Talisay
Brgy. Banga, Talisay, Batangas
talisay@bangkokabayan.com
(043) 786-0632

Tanauan City
ELR Bldg., J.P. Laurel Highway, Brgy. 2
Tanauan City, Batangas
tanauan@bangkokabayan.com
(043) 784-3894

Laguna

Nagcarlan
Rizal Avenue, Poblacion 2 Nagcarlan, Laguna
nagcarlan@bangkokabayan.com
(049) 523-8599

Pagsanjan
Gen. Taiño Street, Poblacion 1
Pagsanjan, Laguna
pagsanjan@bangkokabayan.com
(049) 254-2123

Quezon

Atimonan
Rizal Street, cor. P. Enriquez Street
Brgy. Zone 1, Poblacion, Atimonan, Quezon
atimonan@bangkokabayan.com
(042) 322-4908

Gumaca
G/F Landig Building, P. Castillo Street
Brgy. Tabing Dagat, Gumaca, Quezon
gumaca@bangkokabayan.com
(042) 717-6728 / (042) 322-4913

Sariaya
General Luna Street, Poblacion 4
Sariaya, Quezon
sariaya@bangkokabayan.com
(042) 525-8788 / (042) 322-4906

Tiaong
Don V. Robles Street, Poblacion 1
Tiaong, Quezon
(042) 545-6621

SUSTAINABLE FINANCE FRAMEWORK

Sustainability Strategic Objectives and Risk Policy

The Sustainability Policy of Bangko Kabayan outlines the company's view on the commitment to Sustainable Development and the long term impact it creates on economic, social and environmental aspects. It serves to formalize our engagement and adhere to sustainable development regulations in our business operations. This policy serves as a guide for the bank's corporate decision making and provides a reference on how we deal with opportunities and risks in the context of direct and indirect sustainability impact.

Bangko Kabayan Inc. recognizes that we have the opportunity to create positive economic, environmental and social impacts as it positions itself to be a market leader among market banks in the country. The Bank also acknowledges the potential risks and negative impacts of our own operations. The Bank commits to introduce more innovative solutions for the seamless customer experience in order to provide a better and more inclusive banking experience for our clients, while strengthening our engagement with partners, employees and all our other stakeholders. Bangko Kabayan Inc. will continue to leverage on its digital transformation initiatives to model a sustainability path that is driven by investments in people, technology and products.

The risk management approach is guided by the following:

- Understanding the characteristics of the E&S risks and their direct and indirect impact to the clients and the bank; Incorporating E & S risk considerations into all financing activities;
- Excluding financing clients whose business activities do not meet the Bank's Credit Underwriting standards;
- Committing to improve the overall E & S performance of its portfolio enhanced risk management
- Setting useful and actionable risk controls to assess clients; and
- Developing a due diligence tool that allows effective assessment and management of the risks without significantly affecting the transaction costs of the bank.

Overview of E&S Risk Management System

Environmental and Social Risk Management System refers to the policies, procedures and tools to identify, assess, monitor and mitigate exposures to E&S risks. Managing Environment & Social risk is an integral part of the bank's sustainable development initiative and credit risk assessment process. To protect the bank's safety and soundness without sacrificing servicing the clients' needs, proper management of lending business and associated risk is needed. The bank needs to ensure that the client's financial and operational sustainability as well as the collaterals subject to mortgage are not undermined by adverse impacts on the environment and surrounding communities. In addition, the bank also needs to have a clear understanding of potential E & S risk and implications for a client's operations as well as the mitigations and programs set prior to extending loans.

The assessment of E & S is an integral part of the Bank's credit sanctioning process. It is the joint responsibility of the Business and Risk Teams, to ensure successful implementation. E & S Risk assessment procedures require to be understood parallel to BK's existing credit risk management procedure.

E&S Risk Management Activities	Bank Credit Process
Transaction Screening	Loan Application
E&S Due Diligence	Loan Evaluation and Recommendation
Approval and Conditions of Financing	Loan Approval and Legal Documentation
E&S Compliance Monitoring	Monitoring and Reporting

Products/services Aligned with Internationally Recognized Sustainability Standards and Practices

The Micro, Small and Medium Enterprises (MSMEs) in the country plays a vital role in the economy as it accounts for over 90% of businesses in the Philippines. Though Bangko Kabayan has no existing issuance of green, social or sustainability bonds, the bank's products and services particularly those specifically designed for the MSME sector helped them in having a financial access which are critical for their continued recovery and inclusion. The MSME sector also contributes to the country's job creation, income generation and overall economic growth.

Information on existing & emerging E&S risks and their impact on the bank

In compliance with BSP Circular No. 1085 Sustainable Finance Framework, an Environmental and Social Risk Assessment for MSME loans are established. E & S issues associated with MSMEs if left unmanaged, can lead to loss of assets, reduced profits and damage reputation. Below are the risk associated for different type of transactions:

- Credit risk due to borrowers unable to fulfill the contractual obligations associated with E&S issues, such as fines and/or closure due to non-compliance with health and safety requirements
- Legal risk on possession of collaterals which includes fines, penalties and costs addressing third party claims for damages
- Operational risk such as potential disruption on borrowers operations as a result of E & S problem
- Liquidity risk due to collateral wherein internal resources are needs to properly sold it if it is impaired or tainted
- Reputational risk due to potentially negative publicity associated with the borrowers poor E&S practices

There should be a clear understanding of the potential environmental and/or social risks and implications for a borrower's operation prior to being associated with the borrower in the view of a transaction.

Upon assessment in 2022, there were no major E&S risks assessed in terms of credit, legal, liquidity and operational risks of Bangko Kabayan.

Breakdown of E&S Risk Exposure of the Bank per Industry

As the major clients of the bank are in the MSME sector, the top industry in terms of outstanding balance is wholesale and retail. This is followed by the real estate and agriculture industries.

INDUSTRY	OS Balance (in Php Mn)	% of OS
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycle	683.22	27.68%
Real Estate Activities	641.11	25.98%
Agriculture, Forestry and Fishing	436.93	17.70%
Manufacturing	147.08	5.96%
Accomodation and Food Service Activities	142.10	5.76%
Construction	103.56	4.20%
Consumption Loans	95.43	3.87%
Transportation and Storage	85.87	3.48%
Other Service Activities	68.91	2.79%
Human Health and Social Work Activities	18.57	0.75%
Financial and Insurance Activities	14.08	0.57%
Education	8.74	0.35%
Mining and Quarrying	7.31	0.30%
Water Supply, Sewerage, Waste, Management and Remediation Activities	5.59	0.23%
Information and Communication	3.07	0.12%
Activities of Households as Employers; Undifferentiated Goods and Services Producing Activities of Households for Own Use	3.03	0.12%
Professional, Scientific and Technical Activities	1.29	0.05%
Administrative and Support Service Activities	1.16	0.05%
Arts, Entertainment and Recreaction	0.89	0.04%
TOTAL	2,467.92	100.00%

Other Initiatives to Promote Adherence to Internationally Recognized Sustainability Standards and Practices

In line with its mission of creating financial inclusion and promoting economic development, the bank is committed to invest and provide projects to its communities that integrate environment and social criteria. Some of the projects initiated by the bank includes:

1. Good Entrepreneurship
   - Entrep-Eskwela - face to face sessions with MSME's for clients and soon to be clients
   - B.E.S.T. -Bangon Entrepreneurs at Sumabay sa Tagumpay- online sessions with MSME's for clients and soon to be clients during pandemic
2. Brigada Eskwela
3. Bayani ng Komunidad and Bayani ng Kalikasan - values formation, environmental and sustainability projects
   a. Eco-Bricks Projects in the communities, schools and BK employees and their families
   b. Environmental Awareness and Community Action
4. Inclusion
   a .Outreach Programs
   b. Digital Challenge- Fight Against Hunger
   c. Community Pantry
   d. Covid Response
   e. Natural Disasters Response (Volcanic Eruptions and Storms)
   f. Partnership with other entities in helping communities

Sustainability Implementation and Transition Plan

2022

Corporate orientation on Environmental and Social Governance

Presentation and approval to the BOD of the transition plan for the implementation of the Sustainability Framework

Submission of the Transition Plan to BSP

Capability building initiatives

2023

Board approval of policies related to Sustainability, Human Rights, Code of Conduct, Credit Risk Policy and Investment Policy

Cascade the policies and programs to the whole organization

Continue capability building initiatives

Roll out of the activities related to the Sustainability principles

Set targets and commitments

CAPITAL STRUCTURE & CAPITAL ADEQUACY

The Bank's regulatory capital position as of December 31, 2022 and 2021 is as follows:

QUALIFYING CAPITAL

Tier 1	**2022**	**2021**
Paid-in CS-Common Stock	367,739,200.00	367,739,200.00
Retained Earnings Free & Reserve	162,186,342.49	108,273,320.09
CURRENT YEAR INCOME	83,775,789.35	54,955,104.20
Other Comprehensive Income	- 21,751,664.90	- 28,367,611.03
TOTAL CAPITAL	**591,949,666.94**	**502,600,013.26**
Less:		
Deferred Tax Assets	19,925,268.59	22,761,020.00
Intangible Assets	8,342,029.14	2,601,613.20
Total Outstaning Unsecured Credit Accomodation- DOSRI		
Defined Benefit pension fund assets/liability	2,454,736.00	10,728,000.00
Total Tier 1	**561,227,633.21**	**466,509,380.06**
Tier 2		
RE Reserve Others	0	0
Add: General Loan Loss	8,415,378.18	6,541,202.53
Total Tier 2	**8,415,378.18**	**6,541,202.53**
Total Qualifying Capital	**569,643,011.39**	**473,050,582.59**
Total Credit Risk Weigted Assets	2,092,891,631.66	1,930,433,266.89
Total Operational Risk Weighted Assets:	618,284,594.23	614,922,841.55
Total Risk Weighted Assets	**2,711,176,225.89**	**2,545,356,108.44**
Risk Based Capital Adequacy Ratio		
Total CAR	**21.01%**	**18.58%**
CET1 CAR	**20.70%**	**18.33%**
Capital Conservation Buffer	**14.70%**	**12.33%**

The reconciliation of all regulatory elements and/or regulatory adjustments/deductions is as follows

Tier 1	**BSP REPORT 2022**	**Adjustment**	**2022 Restated**
Paid-in CS-Common Stock	367,739,200.00	-	367,739,200.00
Retained Earnings Free & Reserve	162,186,342.49	- 68,761.02	162,117,581.47
CURRENT YEAR INCOME	83,775,789.35	463,150.49	84,238,939.84
Other Comprehensive Income	- 21,751,664.90	15,541.13	- 21,736,123.77
TOTAL CAPITAL	**591,949,666.94**	**409,930.60**	**592,359,597.54**
Less:			
Deferred Tax Assets	19,925,268.59	- 3,567.59	19,921,701.00
Intangible Assets	8,342,029.14	-	8,342,029.14
Total Outstaning Unsecured Credit Accomodation- DOSRI			
Defined Benefit pension fund assets	2,454,736.00		2,454,736.00
Total Tier 1	**561,227,633.21**	**413,498.19**	**561,641,131.40**
Tier 2			
RE Reserve Others	-		
Add: General Loan Loss	8,415,378.18	-	8,415,378.18
Total Tier 2	**8,415,378.18**	**-**	**8,415,378.18**
Total Qualifying Capital	**569,643,011.39**	**413,498.19**	**570,056,509.58**
Total Credit Risk Weigted Assets	2,092,891,631.66	220,965.34	2,093,112,597.00
Total Operational Risk Weighted Assets:	618,284,594.23	-	618,284,594.23
Total Risk Weighted Assets	**2,711,176,225.89**	**220,965.34**	**2,711,397,191.23**
Risk Based Capital Adequacy Ratio			
Total CAR	**21.01%**	**0.01%**	**21.02%**
CET1 CAR	**20.70%**	**0.01%**	**20.71%**

Tier 1	BSP REPORT 2021	Adjustment	2021 Restated
Paid-in CS-Common Stock	367,739,200.00	-	367,739,200.00
Retained Earnings Free & Reserve	108,273,320.09	-	108,273,320.09
CURRENT YEAR INCOME	54,955,104.20	25,767.41	54,980,871.61
Other Comprehensive Income	- 28,367,611.03	8,325,565.75	- 20,042,045.28
TOTAL CAPITAL	**502,600,013.26**	**8,351,333.16**	**510,951,346.42**
Less:			
Deferred Tax Assets	22,761,020.00	- 2,723,603.34	20,037,416.66
Intangible Assets	2,601,613.20	-	2,601,613.20
Total Outstaning Unsecured Credit Accomodation- DOSRI			
Defined Benefit pension fund assets	10,728,000.00	- 10,728,000.00	-
Total Tier 1	**466,509,380.06**	**21,802,936.50**	**488,312,316.56**
Tier 2			
RE Reserve Others	0		
Add: General Loan Loss	6,541,202.53	- 243,199.00	6,298,003.53
Total Tier 2	**6,541,202.53**	**- 243,199.00**	**6,298,003.53**
Total Qualifying Capital	**473,050,582.59**	**21,559,737.50**	**494,610,320.09**
Total Credit Risk Weigted Assets	1,930,433,266.89	11,676,738.65	1,942,110,005.54
Total Operational Risk Weighted Assets:	614,922,841.55		614,922,841.55
Total Risk Weighted Assets	**2,545,356,108.44**	**11,676,738.65**	**2,557,032,847.09**
Risk Based Capital Adequacy Ratio			
Total CAR	**18.58%**	**0.76%**	**19.34%**
CET1 CAR	**18.33%**	**0.77%**	**19.10%**

The Computation of the Banks Credit Risk Weighted Assets is as follows:

2022			
	Risk Weight	Principal Amount	Risk Weighted Amount
Check & Other Cash Items	20%	1,959,772.99	391,954.60
AFS-Corporate (AAA Rating)	20%	58,764,213.85	11,752,842.77
HTM-Corporate (AAA Rating)	20%	90,207,973.08	18,041,594.62
Individuals-Agri Loans (Secured portion-AGFP)	20%	53,466,546.04	10,693,309.21
OFF_BLANCE SHEET: Committed Credit Line	20%	47,200,000.00	9,440,000.00
Due from Other Banks	50%	6,408,593.97	3,204,296.99
Performing MSME	50%	1,269,162,968.08	634,581,484.04
Performing Housing Secured by 1st Mortgage	50%	139,515,292.51	69,757,646.26
Due from Other Banks	100%	22,105,695.38	22,105,695.38
Agriloans: Corporate	100%	122,043,139.14	122,043,139.14
Loans to Private Corporations	100%	327,409,346.90	327,409,346.90
Performing Housing not fully Secured by 1st Mortgage	100%	137,689,004.08	137,689,004.08
Individuals-Agri Loans	100%	241,644,152.74	241,644,152.74
Individuals- Consumptions & Other Purposes	100%	75,204,318.98	75,204,318.98
Non Performing Loans	100%	7,042,613.46	7,042,613.46
All Other Assets	100%	175,867,022.96	175,867,022.96
SCR-Performing net	100%	32,138,932.35	32,138,932.35
Non Performing Other Loans Other Than Housing	150%	25,964,204.92	38,946,307.38
SCR-Non Performing net	150%	44,810,411.49	67,215,617.24
ROPA Net	150%	58,481,568.39	87,722,352.59
Total Credit Risk Weighted Assets			**2,092,891,631.66**

2021			
	Risk Weight	Principal Amount	Risk Weighted Amount
AFS-Corporate (AAA Rating)	20%	96,353,816.27	19,270,763.25
HTM-Corporate (AAA Rating)	20%	90,207,973.08	18,041,594.62
Individuals-Agri Loans (Secured portion-AGFP)	20%	35,506,196.55	7,101,239.31
OFF_BLANCE SHEET: Committed Credit Line	20%	90,420,000.00	18,084,000.00
Due from Other Banks	50%	17,893,450.49	8,946,725.25
Performing MSME	50%	1,058,974,126.39	529,487,063.20
Performing Housing Secured by 1st Mortgage	50%	114,816,269.85	57,408,134.93
Due from Other Banks	100%	119,844,494.03	119,844,494.03
Agriloans: Corporate	100%	130,736,604.59	130,736,604.59
Loans to Private Corporations	100%	216,241,976.14	216,241,976.14
Performing Housing not fully Secured by 1st Mortgage	100%	128,282,971.68	128,282,971.68
Individuals-Agri Loans	100%	199,867,899.80	199,867,899.80
Individuals- Consumptions & Other Purposes	100%	64,126,077.38	64,126,077.38
Non Performing Loans	100%	5,859,659.58	5,859,659.58
All Other Assets	100%	165,053,473.43	165,053,473.43
SCR-Performing net	100%	12,857,647.57	12,857,647.57
Non Performing Other Loans Other Than Housing	150%	25,759,380.78	38,639,071.17
SCR-Non Performing net	150%	31,777,825.66	47,666,738.49
ROPA Net	150%	95,278,088.32	142,917,132.48
Total Credit Risk Weighted Assets			**1,930,433,266.89**

The Computation of the Banks Operational Weighted Assets is as follows:

		2022	
Nature of Item	**2019**	**2020**	**2021**
A. Net Interest Income			
A.1 Interest Income	335,394,804.87	317,065,744.25	302,775,114.63
A.2 Interest Expense	15,951,642.48	15,830,342.91	12,777,816.54
A.3 Sub Total (A.1 minus A.2)	**319,443,162.39**	**301,235,401.34**	**289,997,298.09**
B. Other Non- Interest Income			
B.1 Dividend Income			
B.2 Fees & Commission	29,380,454.82	15,053,290.27	17,110,366.52
B.3 Gain from held for Trading			
B.4 Gain from FVOCI			
B.5 Forex	4,592.08	- 3,042.68	2,487.18
B.6 G/L on FV Adjustment in Hedge Accounting			
B.7 Other Income	8,886,158.31	4,357,602.67	3,787,579.77
B.8 Sub Total (Sum of B.1 to B.7)	**38,271,205.21**	**19,407,850.26**	**20,900,433.47**
C. Gross Income (Sum of A.3 and B.8)	357,714,367.60	320,643,251.60	310,897,731.56
D. Capital Charge (multiply by Capital Charge Factor of 15%)	53,657,155.14	48,096,487.74	46,634,659.73
E. Adjusted Capital Charge 125%			61,828,459.42
F. TOTAL OPERATIONAL RISK WEIGHTED ASSETS ((E multiply by 10)			618,284,594.23

		2021	
Nature of Item	**2018**	**2019**	**2020**
A. Net Interest Income			
A.1 Interest Income	282,597,859.97	335,394,804.87	317,065,744.25
A.2 Interest Expense	14,739,089.44	15,951,642.48	15,830,342.91
A.3 Sub Total (A.1 minus A.2)	**267,858,770.53**	**319,443,162.39**	**301,235,401.34**
B. Other Non- Interest Income			
B.1 Dividend Income			
B.2 Fees & Commission	34,848,153.54	29,380,454.82	15,053,290.27
B.3 Gain from held for Trading			
B.4 Gain from FVOCI			
B.5 Forex	- 877.29	4,592.08	- 3,042.68
B.6 G/L on FV Adjustment in Hedge Accounting			
B.7 Other Income	2,812,880.50	8,886,158.31	4,357,602.67
B.8 Sub Total (Sum of B.1 to B.7)	**37,660,156.75**	**38,271,205.21**	**19,407,850.26**
C. Gross Income (Sum of A.3 and B.8)	305,518,927.28	357,714,367.60	320,643,251.60
D. Capital Charge(multiply by Capital Charge Factor of 15%)	45,827,839.09	53,657,155.14	48,096,487.74
E. Adjusted Capital Charge 125%			61,492,284.16
F. TOTAL OPERATIONAL RISK WEIGHTED ASSETS ((E mulitoply by 10)			614,922,841.55

BASEL III LEVERAGE RATIO

BANGKO KABAYAN INC. (A PRIVATE DEVELOPMENT BANK)
Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
Amounts in Million Pesos

	Item	Leverage Ratio Framework
1	Total consolidated assets as per published financial statements 1/	3,619.427
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation 2/	
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure 2/	
4	Adjustments for derivative financial instruments	0.000
5	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	0.000
6	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	9.678
7	Other adjustments	-22.307
8	**Leverage ratio exposure 3/**	**3,606.798**

Basel III Leverage Ratio Common Disclosure Template
Amounts in Million Pesos; Ratios in Percent

	Item	Leverage Ratio Framework
	On-balance sheet exposures	
1	On-balance sheet items 1/	3,576.101
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	-30.722
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**3,545.379**
	Derivative exposures	
4	Replacement Cost associated with all derivatives transactions	0.000
5	Add-on amounts for Potential Future Exposure associated with all derivative transactions	0.000
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework 2/	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions) 2/	
8	(Exempted CCP leg of client-cleared trade exposures) 2/	
9	Adjusted effective notional amount of written credit derivatives	0.000
10	(Adjusted effective offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**0.000**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting)	51.741
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)2/	
14	CCR exposures for SFT assets	
15	Agent transaction exposures 3/	
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**51.741**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	47.438
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance sheet items**	**9.678**
	Capital and total exposures	
20	**Tier 1 capital**	**561.228**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,606.798**
	Leverage ratio	
22	**Basel III leverage ratio**	**15.56%**

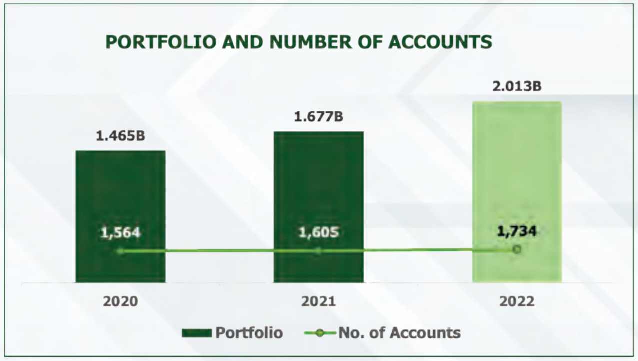
LIQUIDITY COVERAGE RATIO

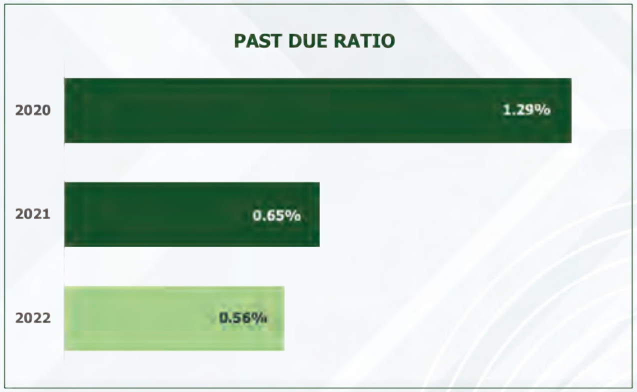
as of December 31, 2022

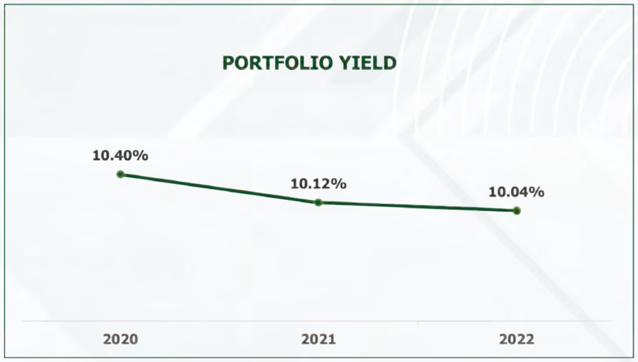
PART I. CALCULATION OF LIQUIDITY COVERAGE RATIO (In Absolute Amount)		
Item	**Weighted Amount**	
A. Total Stock of High-Quality Liquid Assets (After Cap)*[Net of A.3 and A4]*		**720,438,280.86**
A.1 Stock of Level 1 Assets	594,341,524.61	
A.2 Stock of Level 2 Assets	126,096,756.25	
A.3 Total Stock of High Quality Liquid Assets (Before Cap)*[Sum of A.1 and A.2]*	720,438,280.86	
A.4 *Adjustment for 40% Cap on Level 2 Assets*	0.00	
B. Total Net Cash Outflows *[Net of B.1 and B.2]*		**184,379,708.14**
B.1 Total Expected Cash Outflows	303,745,509.64	
B.2 Total Expected Cash Inflows Before Ceiling	119,365,801.51	
B.3 *Adjustment for 75% Ceiling on Cash Inflows*	0.00	
B.4 Total Expected Cash Inflows After Ceiling	119,365,801.51	
C. LIQUIDITY COVERAGE RATIO *[A/B]*		**390.74%**

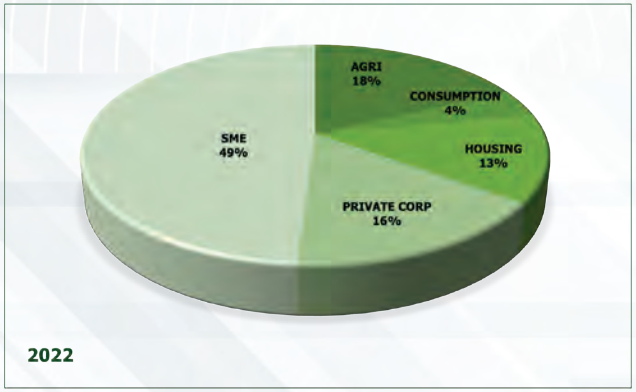
PRODUCT PERFORMANCE

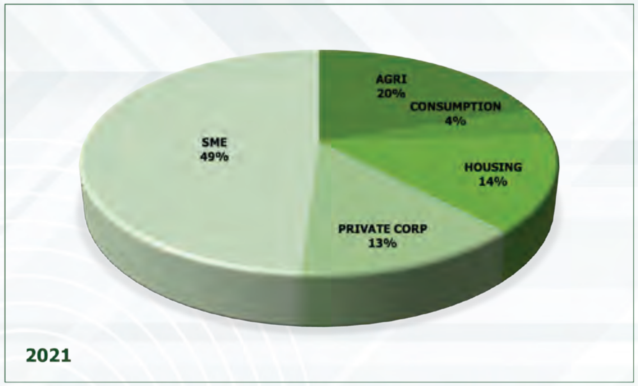
Regular Loans

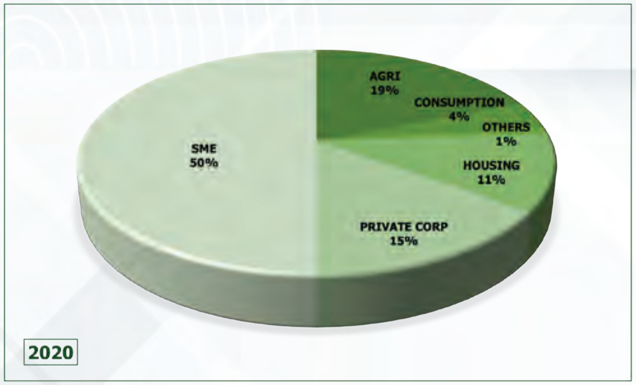




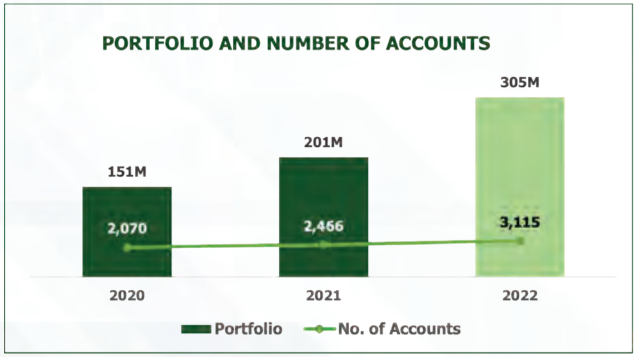


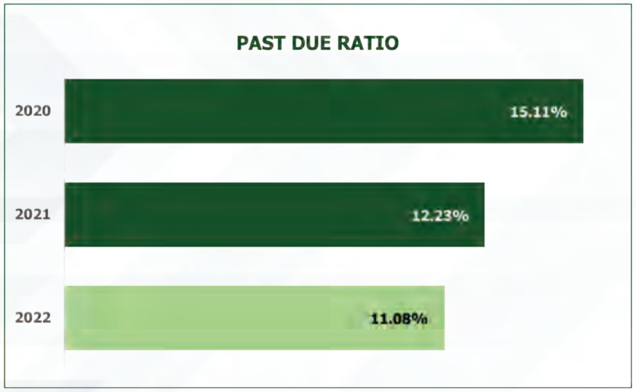


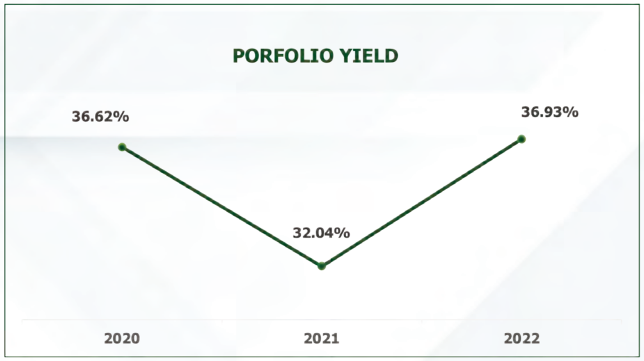




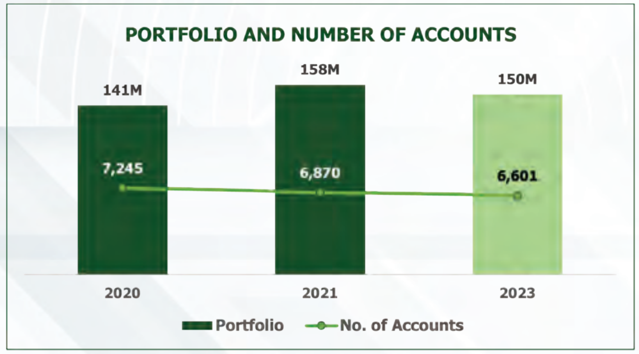
Supervised Loans

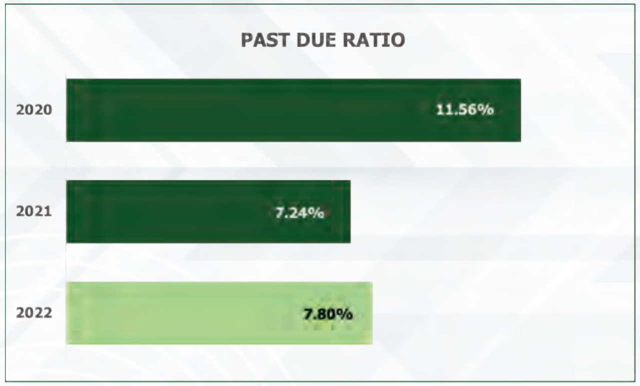


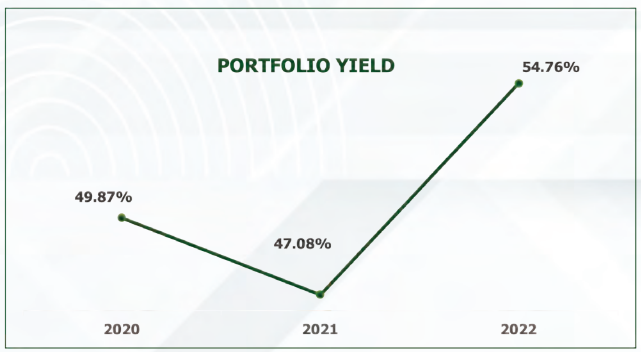


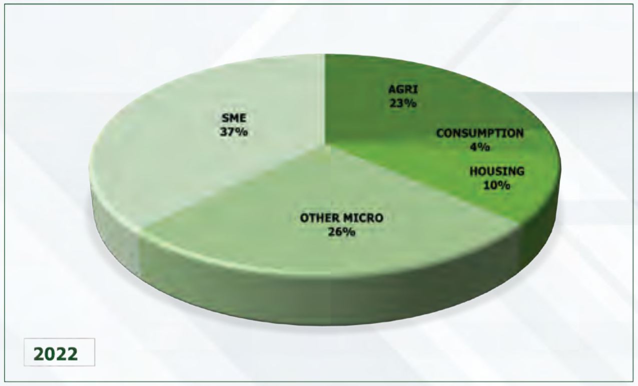


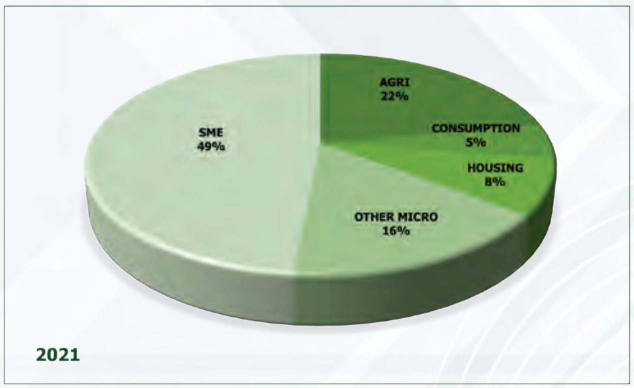
Microfinance

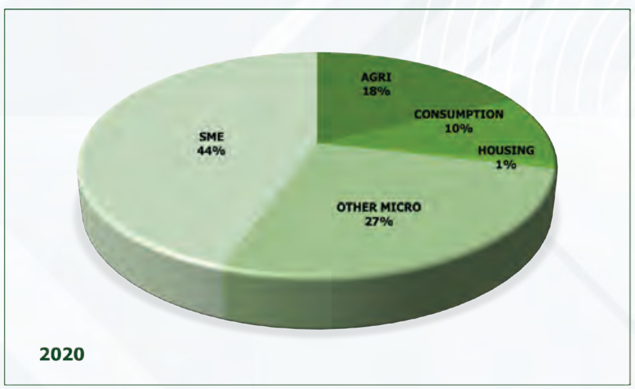


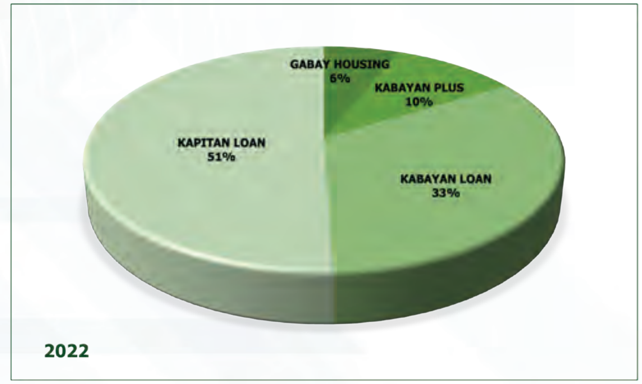


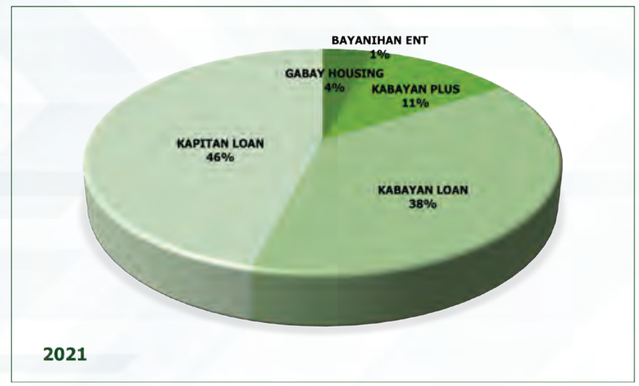


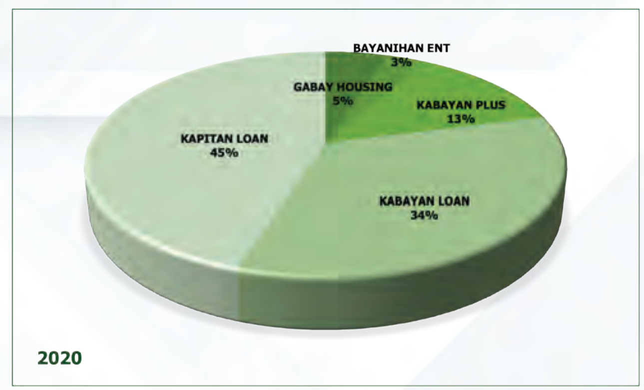












SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Bangko Kabayan, Inc.
(A Private Development Bank)
Santiago Street
Poblacion, Ibaan, Batangas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bangko Kabayan, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of income, statements of comprehensive income, statements of changes in equity and statement 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 (PSAs). Our responsibilities under those standards are further described in the Auditor's 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 (the Code of Ethics) together with the ethical requirements that are relevant to our audit 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 PFRSs, 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.

Auditor's 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 auditor's 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 PSAs 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 PSAs, 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 auditor's 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 auditor's 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 the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 23 to the financial statements and Revenue Regulations 15-2010 in Note 24 to the financial statements is presented for purposes of filing with the BSP and the Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Bangko Kabayan, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
Tax Identification No. 193-975-241
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 92305-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-062-2020, December 3, 2020, valid until December 2, 2023
PTR No. 9369768, January 3, 2023, Makati City

April 18, 2023

BIR RDO 059 LIPA CITY EAST BATANGAS
RECEIVED
02 MAY 2023
Jonathan R. Ramoyan
RCO Code

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF FINANCIAL POSITION
(Amounts in Philippine Pesos)

	December 31	
	2022	2021
RESOURCES		
CASH AND OTHER CASH ITEMS (Note 7)	**₱48,527,975**	₱57,505,770
DUE FROM BANGKO SENTRAL NG PILIPINAS (Note 7)	**142,174,904**	223,669,489
DUE FROM OTHER BANKS (Note 8)	**118,277,909**	238,949,811
SECURITIES PURCHASED UNDER REVERSED REPURCHASE AGREEMENT (Note 7)	**51,741,227**	–
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Note 9)	**67,611,773**	145,555,046
FINANCIAL ASSETS AT AMORTIZED COST (Note 9)	**434,735,084**	375,391,478
LOANS AND OTHER RECEIVABLES (Note 10)	**2,519,939,323**	2,060,521,960
BANK PREMISES, FURNITURES, FIXTURES AND EQUIPMENT (Note 11)	**133,370,396**	132,665,815
INVESTMENTS PROPERTIES (Note 12)	**63,848,392**	96,701,888
OTHER RESOURCES (Note 13)	**43,273,594**	39,341,745
TOTAL RESOURCES	**₱3,623,500,577**	₱3,370,303,002
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES (Note 15)	**₱2,877,432,263**	₱2,777,074,140
BILLS PAYABLE (Note 16)	**50,000,000**	–
OTHER LIABILITIES (Note 16)	**99,794,083**	82,277,515
Total Liabilities	**3,027,226,346**	2,859,351,655
CAPITAL STOCK (Note 17)	**367,739,200**	367,739,200
SURPLUS RESERVES (Note 17)	**20,399,564**	17,170,130
SURPLUS FREE (Note 17)	**229,871,590**	146,084,062
REVALUATION RESERVES	**(21,736,123)**	(20,042,045)
Total Equity	**596,274,231**	510,951,347
TOTAL LIABILITES AND EQUITY	**₱3,623,500,577**	₱3,370,303,002

See accompanying Notes to Financial Statements.

BIR RDO 059 LIPA CITY EAST
RECEIVED
02 MAY 2023

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Years Ended December 31	
	2022	2021
INTEREST INCOME		
Loans and receivables (Note 10)	**₱356,102,508**	₱273,790,340
Investment securities (Note 9)	**23,224,161**	19,783,524
Due from BSP and other banks (Notes 7 and 8)	**5,465,337**	9,201,251
Others	**113,960**	–
	384,905,966	302,775,115
INTEREST EXPENSE		
Deposit liabilities (Note 15)	**11,547,085**	11,471,366
Others - net	**1,576,641**	1,888,502
	13,123,726	13,359,868
NET INTEREST INCOME	**371,782,240**	289,415,247
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES (Notes 4 and 12)	**21,947,918**	2,117,229
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**349,834,322**	287,298,018
OTHER INCOME (Note 18)	**54,403,989**	35,673,953
TOTAL INCOME	**404,238,311**	322,971,971
OPERATING EXPENSES (Note 18)	**(288,260,080)**	(247,938,016)
INCOME BEFORE INCOME TAX	**115,978,231**	75,033,955
PROVISION FOR INCOME TAX (Note 20)	**28,961,269**	20,053,081
NET INCOME	**₱87,016,962**	₱54,980,874

See accompanying Notes to Financial Statements.

BIR RDO 059 LIPA CITY [illegible]
RECEIVED
02 MAY 2023
Jonathan R. Ramoyan
RCO Code: 220191

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Years Ended December 31	
	2022	2021
NET PROFIT	**₱87,016,962**	₱54,980,874
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be reclassified subsequently to profit or loss		
Fair value losses on debt financial assets at fair value through other comprehensive income (Note 9)	**(1,939,389)**	(5,662,600)
Income tax expense	**(118,835)**	249,206
	(2,058,224)	(5,413,394)
Item that will not be reclassified subsequently to profit or loss		
Gain on remeasurement of post-employment defined benefit obligation (Note 19)	**485,528**	11,422,073
Income tax expense	**(121,382)**	(4,734,012)
	364,146	6,688,061
Other Comprehensive Income (Loss)	**(1,694,078)**	1,274,667
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱85,322,884**	₱56,255,541

See accompanying Notes to Financial Statements.

BIR RDO 059 LIPA CITY EAST BATANGAS
RECEIVED
0 2 MAY 2023
Jonathan R. Ramoyan
RCO Code: 2...

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF CHANGES IN EQUITY

(Amounts in Philippine Pesos)

	Capital Stock	Surplus Free	Surplus Reserves	Unrealized Fair Value Gains or Losses on Financial Assets at Fair Value through Other Comprehensive Income	Remeasurement on Retirement Benefit Obligation	Total Equity
Balance at January 1, 2022	**₱367,739,200**	**₱146,084,062**	**₱17,170,130**	**(₱431,195)**	**(₱19,610,850)**	**₱510,951,347**
Appropriations during the year (Note 17)	–	**(3,229,434)**	**3,229,434**	–	–	–
Total comprehensive income (loss) for the period	–	**87,016,962**	–	**(2,058,224)**	**364,146**	**85,322,884**
Balance as of December 31, 2022	**₱367,739,200**	**₱229,871,590**	**₱20,399,564**	**(₱2,489,419)**	**(₱19,246,704)**	**₱596,274,231**
Balance at January 1, 2021	₱367,739,200	₱268,978,704	₱14,294,614	₱4,982,199	(₱26,298,911)	₱629,695,806
Appropriations during the year (Note 17)	–	(2,875,516)	2,875,516	–	–	–
Cash dividends (Note 17)	–	(175,000,000)	–	–	–	(175,000,000)
Total comprehensive income (loss) for the period	–	54,980,874	–	(5,413,394)	6,688,061	56,255,541
Balance as of December 31, 2021	₱367,739,200	₱146,084,062	₱17,170,130	(₱431,195)	(₱19,610,850)	₱510,951,347

See accompanying Notes to Financial Statements.

BIR RDO 059 LIPA CITY EAST, BATANGAS
RECEIVED
0 2 MAY 2023
Jonathan R. R...
RCO Code: 2...

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF CASH FLOWS

(Amounts in Philippine Pesos)

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**₱115,978,231**	₱75,033,952
Adjustments for:		
Depreciation and amortization (Note 18)	**22,640,829**	21,781,202
Gain on sale of non-financial assets (Note 18)	**(18,714,924)**	(10,217,451)
Provision for credit and impairment losses	**21,947,918**	2,117,229
Premium amortization on hold-to collect (HTC) financial assets	**656,395**	970,393
Unrealized foreign currency gains- net	**(8,010)**	(2,487)
Operating profit before changes in operating assets and liabilities	**142,500,439**	89,682,838
Changes in operating assets and liabilities		
Decreases (increases) in:		
Loans and other receivables	**(479,223,282)**	(324,528,212)
Other resources	**4,531,880**	14,772,689
Increases (decreases) in:		
Deposit liabilities	**100,358,123**	36,006,341
Other liabilities	**17,292,063**	(37,078,056)
Cash used in operations	**(214,540,777)**	(221,144,400)
Income taxes paid	**(21,905,830)**	(7,546,923)
Net cash used in operating activities	**(236,446,607)**	(228,691,323)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment securities at amortized cost	**(60,000,000)**	(210,450,000)
Proceeds from maturities of investment securities at FVOCI	**76,000,000**	30,000,000
Proceeds from disposal of investment properties	**42,339,159**	27,405,040
Proceeds from maturities of time deposits	**44,000,000**	25,000,000
Acquisition of bank premises, furniture, fixtures and equipment	**(22,079,433)**	(22,146,205)
Acquisition of computer software	**(7,719,050)**	(2,095,610)
Proceeds from sale of bank premises, furniture, fixtures and equipment	**4,141,538**	7,599,998
Proceeds from maturities of investment securities at amortized cost	**–**	90,000,000
Net cash provided by (used in) investing activities	**76,682,214**	(54,686,777)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills payable (Note 16)	**50,000,000**	-
Payments of lease liability	**(5,646,671)**	(5,447,213)
Payments of dividends	**–**	(173,866,481)
Net cash provided by (used in) financing activities	**44,353,329**	(179,313,694)
Effects of changes in foreign exchange rate	**8,010**	2,487
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(115,403,054)**	(465,302,211)

(Forward)

	Years Ended December 31	
	2022	2021
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash equivalents	**₱57,505,770**	₱68,207,826
Due from Bangko Sentral ng Pilipinas	**223,669,489**	374,140,674
Due from other banks	**194,949,811**	371,746,597
Securities under overnight repurchase agreement	**–**	127,332,184
	476,125,070	941,427,281
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash equivalents	**48,527,975**	57,505,770
Due from Bangko Sentral ng Pilipinas	**142,174,905**	223,669,489
Due from other banks	**118,277,909**	194,949,811
Securities under overnight repurchase agreement	**51,741,227**	–
	₱360,722,016	₱476,125,070

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Matters

Incorporation and Operations

Bangko Kabayan Inc. (A Private Development Bank), formerly known as Bangko Kabayan (A Rural Bank) Inc. (the Bank), was incorporated in the Philippines on August 2, 2007 to engage in the business of rural banking. It was organized to carry the merger between Bangko Kabayan (Ibaan Rural Bank, Inc.) and Banco de Jesus Rural Bank, Inc. The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) issued the Bank's authority to operate as a thrift bank on May 27, 2016. On April 25, 2016, the Securities and Exchange Commission (SEC) approved the Bank's application to operate as a thrift bank.

On February 6, 2019, City Savings Bank, Inc. (CSB) and UBP Investments Corporation (UIC) signed a share purchase agreement (SPA) with the Bank's shareholders for the purchase of 2,574,178 common shares representing 70% ownership the Bank. On September 19, 2019, the BSP approved the transfer of shares equivalent to 49% and 21% of the Bank's outstanding common shares to CSB and UIC, respectively.

CSB and UIC are 99.79% and 100.00%, respectively, owned subsidiaries of Union Bank of the Philippines (UnionBank or the Ultimate Parent Company). Unionbank is a publicly-listed universal bank incorporated and domiciled in the Philippines providing expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. The registered office of CSB, which is also their principal place of business, is located at City Savings Financial Plaza, corner Osmeña Blvd. & P. Burgos St., Cebu City. The Ultimate Parent Company and UIC's registered address, which is also the principal place of business, is located at UnionBank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The Bank was authorized to engage in the business of extending financial services to farmers, employees, entrepreneurs, commercial, manufacturing and industrial enterprises and to such other persons or entities that require financial intermediation, and to have and to exercise all authority and powers, and to do and perform all acts, and to transact all business which may legally be done by Thrift Banks organized under and in accordance with the existing New Thrift Banks Act of 1995 (Republic Act No. 7906).

As of December 31, 2022, the Bank has 23 branches, including the head office, in the areas of Batangas, Laguna and Quezon (Southern Luzon), and one branch-lite in Lobo, Batangas. The Bank's registered address, which is also its principal place of business, is at Santiago Street, Poblacion, Ibaan, Batangas.

Merger with First Agro Industrial Rural Bank and Progressive Bank, Inc.

On December 21, 2021 and December 22, 2021, the Board of Directors and stockholders of the Bank approved the plan of merger between the Bank, First Agro Industrial Rural Bank, (FAIR Bank) and Progressive Bank, Inc. (PBI), with the Bank as the surviving entity. On September 8, 2022, the Bank received the approval of BSP on the merger. The Bank is currently awaiting for the approval of the Securities and Exchange Commission.

Approval of Financial Statements
The accompanying financial statements of the Bank were authorized and approved for issue by the Bank's Board of Directors (BOD) on April 18, 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. Those policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation of Financial Statements
The financial statements have been prepared in accordance with the accounting policies set by the Bank as more fully discussed in the Significant Accounting Policies.

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of reporting date (current) and more than 12 months after the statement of reporting date (non-current) is presented in the respective notes to financial statement for each assets and liabilities. The Bank presents the statement of comprehensive income separate from the statement of income.

The accompanying financial statements have been prepared on a historical cost basis. 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.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2022. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
    - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
    - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to IFRS 16, *Lease Liability in a Sale and Leaseback*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*

Amendments *Deferred effectivity*
- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Significant Accounting Policies

Cash and Cash Equivalents
For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less from placement date, including cash and other cash items and non-restricted balances of Due from BSP, Due from Other Banks, and Securities under reverse repurchase agreement (SPURRA) (presented as part of Loans and Other Receivables account). 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.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability except for financial assets and financial liabilities at fair value through profit or loss (FVTPL). The Bank classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVTPL and financial assets classified under FVOCI. Financial liabilities are categorized as financial liabilities at FVTPL and financial liabilities carried at amortized cost. The classification and measurement of financial instruments is driven by the Bank's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

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.

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 described below.

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interests (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL. Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement (see Note 3). 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 fair value through profit or loss (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, Held-to-Collect (HTC) Financial Assets, Loans and Receivables and Refundable deposits (presented under Other Resources account).

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

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 not designated any equity financial assets at FVOCI.

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 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 Free account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Financial Assets at FVTPL
Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are initially measured at fair value. Subsequently, they are measured at fair value with gains or losses recognized in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank has no outstanding financial assets at FVTPL.

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.

Effective Interest Rate Method and Interest Income
Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI is recorded by using the EIR method. The EIR 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 EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. 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 loan. 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 (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than 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, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Impairment of Financial Assets

The Bank recognizes allowance for ECL on a forward-looking basis associated with its financial assets at amortized cost, debt securities at FVOCI, and loan commitments issued.

In recognizing provision for credit losses, the Bank 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 (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the 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.

Assessment of Significant Increase in Credit Risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(a) Stage 1 – these are credit exposures that are considered 'performing' and with no SICR since initial recognition or with low credit risk. The loss allowance is determined based on a 12-month ECL.

(b) Stage 2 – these are credit exposures that are considered 'under performing' and with SICR since initial recognition. A lifetime ECL is recognized for these credit exposures.

(c) Stage 3 – these are credit exposures with objective evidence of impairment and considered 'non-performing'. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Definition of Default

(a) Loans and receivables
The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the eleven days past due threshold for microfinance loan portfolio. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(b) Investment in debt securities
Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Measurement of ECL
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.

Derecognition of Financial Assets
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 SICR has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Difference between the carrying amount of the old financial asset derecognized and the fair value of the new financial asset is recognized as gain or loss in profit or loss upon derecognition. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

Derecognition of Financial Assets other than Modification

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.

<u>Offsetting Financial Instruments</u>

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 there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on 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.

Bank Premises, Furniture, Fixtures and Equipment

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

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

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

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

Leasehold improvements are amortized over the term of the lease or useful lives of the improvements of 10 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is presented as part of Gain on sale of non-financial assets under Other Operating Income account in the statement of income in the year the item is derecognized.

Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers.

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is initially measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under Investment properties from foreclosure date. Gain or loss from foreclosure is included as part of Gain or loss on foreclosure account under Miscellaneous Income section of the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and impairment. Depreciation is computed using the straight-line method over the useful life of 10 years for building held for lease and other foreclosed properties. Land is carried at cost less any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs and real estate taxes, are normally charged against income in the period in which costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

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

Intangible Assets
Intangible assets include computer software licenses, which is presented as part of Other Resources account. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on a straight-line basis over the expected useful life of three to seven years. Costs associated with maintaining computer software are expensed as incurred. In addition, computer software licenses are subject to impairment testing as described in 'Impairment of Non-Financial Assets'.

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

Financial Liabilities
Financial liabilities, which include deposit liabilities, bills payable and other liabilities (except tax-related payables) 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 as part of Interest Expense in the statement of income.

Deposit liabilities and other 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.

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

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Equity

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

Surplus reserve pertains to the appropriation of the Surplus account, brought about by cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1% GLLP required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP to set up an appropriation to surplus equivalent to the difference of 1% of all outstanding 'Stage 1' on-balance sheet loan accounts and the computed ECL under PFRS 9.

Surplus free represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI; and,

(b) Remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest).

Provisions and Contingencies

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

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

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

Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

Revenue 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 be partially 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.

Refer to 'Financial Instrument - Initial recognition and subsequent measurement' for the policies on interest income recognition.

The Bank also earns service fees 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 to be accounted for under PFRS 15, the following 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) Fees and commissions – are generally recognized when the service has been provided. These include commissions and fees arising from loans, deposits and other banking transactions and are taken up as income based on agreed terms and conditions.

(b) Gain on sale of non-financial assets – is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

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 assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2). On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

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

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented under Bank Premises, Furniture, Fixtures and Equipment account and Other Liabilities account, respectively.

Foreign Currency Transactions and Translations

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Impairment of Non-financial Assets

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

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. The recoverable amount 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.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Employee Benefits

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

Post-employment Defined Benefit

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

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

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

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

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, *Provisions, Contingent Liabilities and Contingent Assets,* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

Bonuses
The Bank recognizes a liability and an expense for accrual of bonuses. The Bank recognizes a provision where it is contractually obliged to pay the benefits.

Compensated Absences
Unavailed leaves at the end of reporting period, included in Accrued expenses under Other Liabilities account in the statement of financial position, are accrued at the amount payable to employees based on the Bank's benefits policy. Each regular employee is entitled to 15 days vacation and sick leaves each year. Unused sick leave credits shall be accumulated up to a maximum of sixty (60) days and carried over to the succeeding years.

Unused sick leave credits are commutable to cash to a maximum of 15 days per year provided that the employee has already accumulated sixty (60) days of sick leave credits. Monetization of unused leave credit is done at the end of the year. Accumulated sick leave credit shall be forfeited upon separation from work.

All unused vacation leave credits during the year shall be forfeited at the end of each reference year, therefore there will be no accumulation nor monetization at the end of each year.

Borrowing Costs
Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

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

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

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

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

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

Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include:

1. Directors, Officers, stockholders owning at least 1% and their related interest of Directors, officers and stockholders up to first degree,
2. Second-degree relatives, by affinity or consanguinity, of the Directors, Officers, and Stockholders of the Bank.
3. Directors, Senior Officers, and Stockholders of the affiliated companies and their close family members. **"Close family members"** shall refer to persons within the second degree of consanguinity or affinity, legitimate or common-law.
4. Subsidiaries, affiliates, and any party, that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank
5. With Direct and indirect linkages to the Bank
6. Other persons and juridical entities whose interest may pose potential conflict with the interest of the Bank

(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.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

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

3. Significant Accounting Judgments and Estimates

The 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.

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

Evaluation of Business Models 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 portfolio of financial assets for asset and liability management and regulatory requirement purposes.

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 SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

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

Recognition of Provisions and Contingencies
Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2. and relevant disclosures are presented in Note 22.

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

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

<u>Estimates</u>
Following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Estimation of Allowance for ECL on loans and receivables
The Bank uses a net flow rate model to calculate ECL for its loans and receivables, loan commitments and financial guarantee contracts, if any. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a SICR since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

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.

The Bank's ECL calculations are outputs of models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.

Estimation of Impairment of Investment Properties
In assessing impairment for investment properties, the Bank determines the estimated recoverable amount based on the recent sale transactions of similar assets with adjustments to reflect any changes in economic conditions since the date the transactions occurred. Though management believes that the assumptions used in the estimation of fair values used in impairment assessment are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As of December 31, 2022 and 2021, the carrying amount and impairment losses recognized by the Bank on investment properties, on the other hand, are discussed in Note 12.

Valuation of Post-employment Defined Benefit Plan
The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include, among others, discount rates and salary increase rates. 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 retirement benefit asset or obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligations are presented in Note 19.

4. Risk Management Objectives and Policies

The Bank recognizes that risk management is an activity critical to its success. It is committed to ensure constant adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities. The Bank exposes itself to a myriad of risks arising from the use of financial instruments. In particular, these financial risks are mainly exposure to credit, liquidity and market risks. Consequently, the Bank has put in place the appropriate risk management structures, policies, and processes to address each type of risk. The key risk processes involve identifying, measuring, controlling and monitoring risks.

Risk Management Structure

The following structure shows the Bank's overall approach to risk management:

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

(b) Risk Oversight Committee

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

(c) Senior Management

Senior Management is responsible for the design, implementation and maintenance of effective management program. They also ensure compliance with laws and regulations and create systems to measure and monitor performance.

(d) Risk Unit

Risk Unit (RU) performs an independent risk governance function within the Bank.

It is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Bank. The unit develops and employs risk assessment tools to facilitate risk identification and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide risks. It also develops and endorses risk tolerance limits for approval of the BOD through ROC, and monitors compliance with the approved risk tolerance limits. It regularly reports to the BOD, through the ROC, the results of its risk monitoring.

(e) Executive Credit Committee

A board level committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Committee passes through this committee for final approval. This committee also endorses credit proposals beyond its approving limit to the BOD for final approval.

(f) Asset-Liability Management Committee

A management level committee responsible for the overall management of the Bank's liquidity risks. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring that the Bank's exposures remain within established tolerance levels.

(g) Compliance Unit

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

(h) Internal Audit Department

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

<u>Market Risk</u>
The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk and certain other price risk which resulted from its operating, investing and financing activities.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

As a result of these, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, maintains a large portion of its deposit base on short-term deposits. Savings and demand accounts, and time deposit accounts constitute 75.3% and 19.6%, respectively, of the total deposit liabilities as of December 31, 2022 and 80.4% and 24.7%, respectively, as of December 31, 2021. Rates on time deposits and special savings account are usually priced according to the amount deposited.

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

The following table provides for the effective interest rates profile of the Bank's financial assets and liabilities as of December 31, 2022 and 2021.

	December 2022			December 2021		
	Less than 3 months	**3 Months to 1 year**	**More than 1 year**	Less than 3 months	3 Months to 1 year	More than 1 year
Resources						
Due from other banks	**0% -0.25%**		**–**	0% -0.01%	1.00%-2.00%	–
Loans and other receivables	**8.00%-65.0%**	**3.15%-65.0%**	**3.15%-63.0%**	11%-60.0%	3.15%-61.00%	3.15%-61.00%
Financial assets at FVOCI	**–**	**–**	**3.50%- 5.75%**	–	–	3.25%- 5.75%
HTC financial assets	**–**	**–**	**2.38%-6.25%**	–	–	2.38%-6.25%
Sales contract receivables	**–**	**–**	**7.00%-36.00%**	–	–	7.00%-12.00%
Liabilities						
Saving deposits	**0-0.15%**	**–**	**–**	0-0.15%	–	–
Time deposits	**1.13%-3.75%**	**0.50%-4.00%**	**0.50%-70%**	0.25%-1.13%	0.25%-2.00%	0.50%-7.00%

(a) Foreign Currency Risk

The Bank has no significant exposure to foreign currency risks as most transactions are denominated in Philippine pesos, its functional currency. Its foreign currency denominated cash as of December 31, 2022 and 2021 amounted ₱0.08 million and ₱0.07 million respectively, which is recorded as part of Due from other banks in the statements of financial position (see Note 8).

(b) Other Price Risk

The Bank's market price risk arises from its financial assets at FVOCI. The Bank manages exposures to price risk by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Bank's FVOCI financial assets and their impact on the Bank's profit before tax and equity as at December 31, 2022 and 2021 are summarized below. These percentages have been determined using standard deviation based on the average market volatility in security prices in the previous 12 months.

	Observed Volatility Rates		Impact of increase on		Impact of decrease on	
	Increase	Decrease	Profit Before Tax	Equity	Profit Before Tax	Equity
December 31, 2022						
Debt securities						
Corporate bonds	3.50%	(3.50%)	₱2,042,219	₱2,042,219	(₱2,042,219)	(₱2,042,219)
Government bonds	4.30%	(4.30%)	398,294	398,294	(398,294)	(398,294)
			₱2,440,513	₱2,440,513	(₱2,440,513)	(₱2,440,513)

	Observed Volatility Rates		Impact of increase on		Impact of decrease on	
	Increase	Decrease	Profit before tax	Equity	Profit before tax	Equity
December 31, 2021						
Debt securities						
Corporate bonds	4.30%	(4.30%)	₱4,095,691	₱ 3,923,849	(₱4,095,691)	(₱3,923,849)
Government bonds	4.90%	(4.90%)	2,465,015	2,215,551	(2,465,015)	(2,215,551)
			₱6,560,706	₱6,139,400	(₱6,560,706)	(₱6,139,400)

Credit Risk

Credit risk refers to the potential loss of the Bank's earnings arising from the inability to review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk that loss is incurred if counterparty does not fulfill its financial obligations in a timely manner. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e. strategic level, portfolio level down to individual transaction or account level.

The following tools, among others, are used in identifying, assessing and managing credit risk:

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

Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, HTC financial assets and financial assets at FVOCI. As of December 31, 2022 and 2021, there are no POCI financial assets in the Bank's financial statements.

	As of December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Performing:				
Current	**₱2,501,150,596**	**₱–**	**₱–**	**₱2,501,150,596**
Past due	**–**	**4,284,995**	**–**	**4,284,995**
Non-performing:				
Past due	–	–	**106,104,932**	**106,104,932**
Items in litigation	–	–	**4,120,990**	**4,120,990**
	2,501,150,596	**4,284,995**	**110,225,922**	**2,615,661,513**
Expected credit loss allowance	**(6,839,947)**	**(623,768)**	**(36,517,248)**	**(43,980,963)**
Carrying amount	**2,494,310,649**	**3,661,227**	**73,708,674**	**2,571,680,550**
HTC financial assets				
Carrying Amount	**434,735,084**	–	–	**434,735,084**
Financial assets at FVOCI				
Carrying amount	**67,611,773**	–	–	**67,611,773**

	As of December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Performing:				
Current	₱1,905,324,373	₱–	₱–	₱1,905,324,373
Past due	95,764,519	5,884,372	–	101,648,891
Non-performing:				
Past due	–	–	88,958,902	88,958,902
Items in litigation	–	–	436,816	436,816
	2,001,088,892	5,884,372	89,395,718	2,096,368,982
Expected credit loss allowance	(5,105,391)	(1,060,562)	(29,681,070)	(35,847,023)
Carrying amount	1,995,983,501	4,823,810	59,714,648	2,060,521,959
HTC financial assets				
Carrying Amount	375,391,478	–	–	375,391,478
Financial assets at FVOCI				
Carrying amount	145,555,046	–	–	145,555,046

Concentrations of Credit Risk

Excessive concentration of lending poses undue risk on the Bank's asset quality.

The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

RU reviews the Bank's loan portfolio monthly, in line with its policy of avoiding significant credit concentration to specific industry or group of borrowers.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring. Credit concentration profile as at December 31, 2021 and 2020 is presented in Note 10.

Credit Risk Assessment

All loans and receivables are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using probability of default (PD), exposure at default (EAD), and loss given default (LGD), for purposes of measuring ECL.

The Bank uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts with weighted score from ICRRS of 70% and above, indicating an extremely strong capacity of the counterparty to meet financial commitments down to accounts with weighted score of less than 50%, demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. The ICRRS established by the Bank takes into consideration both quantitative and qualitative characteristics of the borrowers. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Bank to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P10.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

A periodic assessment of credit quality may improve the borrower's weighted score or it could lead to one or more scoring downgrades over time; hence could lead to the transfer of credit exposure in different stages of impairment.

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

Assessment of Significant Increase in Credit Risk
The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from atleast one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Bank's ICRRS, these are exposures rated at least Substandard. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

Expected Credit Loss Measurement Inputs
Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a) Key Inputs and Assumptions in the ECL Model

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

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast.

(b) Overlay of Forward-looking Information
The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments as of December 31, 2022 and 2021.

Loans and receivables

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱5,207,178**	**₱1,060,562**	**₱29,579,283**	**₱35,847,023**
Transfers:				
Stage 1 to Stage 2	**(1,831)**	**1,831**	–	–
Stage 1 to Stage 3	**(862,715)**	–	**862,715**	–
Stage 2 to Stage 1	**671,059**	**(671,059)**	–	–
Stage 2 to Stage 3	–	**(381,074)**	**381,074**	–
Stage 3 to Stage 1	**4,582,353**	–	**(4,582,353)**	–
Stage 3 to Stage 2	–	**215,740**	**(215,740)**	–
New assets originated	**8,557,282**	**523,140**	**12,365,392**	**21,445,814**
Net remeasurement	**1,959,523**	**74,914**	**11,302,346**	**13,336,783**
Assets derecognized or repaid	**(11,147,410)**	**(185,032)**	**(2,667,808)**	**(14,000,250)**
Write-offs	–	–	**(12,648,407)**	**(12,648,407)**
	3,758,261	**(421,540)**	**4,797,219**	**8,133,940**
Balance at December 31	**₱8,965,439**	**₱639,022**	**₱34,376,502**	**₱43,980,963**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱20,310,692	₱762,200	₱38,838,659	₱59,911,551
Transfers:				
Stage 1 to Stage 2	(52,178)	52,178	–	–
Stage 1 to Stage 3	(1,706,259)	–	1,706,259	–
Stage 2 to Stage 1	127,912	(127,912)	–	–
Stage 2 to Stage 3	–	(162,499)	162,499	–
Stage 3 to Stage 1	301,153	–	(301,153)	–
Stage 3 to Stage 2	–	40,532	(40,532)	–
New assets originated	4,136,216	788,944	10,282,100	15,207,260
Net remeasurement	(2,612,454)	135,246	16,051,296	13,574,088
Assets derecognized or repaid	(15,297,904)	(428,127)	(15,200,447)	(30,926,478)
Write-offs	–	–	(21,919,398)	(21,919,398)
	(15,103,514)	298,362	(9,259,376)	(24,064,528)
Balance at December 31	₱5,207,178	₱1,060,562	₱29,579,283	₱35,847,023

The allowance for credit losses on loans and receivable comprises of allowance from receivables from customers and other receivables. Receivable from customers comprises of three loan portfolio (1) Regular loans, (2) Micro finance loans, (3) Supervised credits. Presented below are the reconciliation of expected credit loss allowance of receivables from customers, including segmentation per loan portfolio.

Receivables from customers

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱4,871,188**	**₱1,049,735**	**₱27,457,701**	**₱33,378,624**
Transfers:				
Stage 1 to Stage 2	**(1,819)**	**1,819**	–	–
Stage 1 to Stage 3	**(803,587)**	–	**803,587**	–
Stage 2 to Stage 1	**668,660**	**(668,660)**	–	–
Stage 2 to Stage 3	–	**(381,074)**	**381,074**	–
Stage 3 to Stage 1	**4,440,164**	–	**(4,440,164)**	–
Stage 3 to Stage 2	–	**200,486**	**(200,486)**	–
New assets originated	**8,099,134**	**505,828**	**11,749,802**	**20,354,764**
Net remeasurement	**2,287,792**	**76,251**	**10,072,991**	**12,437,034**
Assets derecognized or repaid	**(11,147,408)**	**(185,032)**	**(1,904,034)**	**(13,236,474)**
Write-offs	–	–	**(12,405,751)**	**(12,405,751)**
	3,542,936	**(450,382)**	**4,057,019**	**7,149,573**
Balance at December 31	**₱8,414,124**	**₱599,353**	**₱31,514,720**	**₱40,528,197**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱19,401,061	₱708,130	₱35,765,063	₱55,874,254
Transfers:				
Stage 1 to Stage 2	(52,002)	52,002	–	–
Stage 1 to Stage 3	(1,659,744)	–	1,659,744	–
Stage 2 to Stage 1	117,673	(117,673)	–	–
Stage 2 to Stage 3	–	(162,499)	162,499	–
Stage 3 to Stage 1	245,705	–	(245,705)	–
New assets originated	4,014,696	786,545	10,209,268	15,010,509
Net remeasurement	(2,296,867)	170,692	16,659,479	14,533,304
Assets derecognized or repaid	(14,899,334)	(387,462)	(14,833,249)	(30,120,045)
Write-offs	–	–	(21,919,398)	(21,919,398)
Balance at December 31	₱4,871,188	₱1,049,735	₱27,457,701	₱33,378,624

Regular Loans

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱427,543**	**₱67,083**	**₱1,199,444**	**₱1,694,070**
Transfers:				
Stage 1 to Stage 2	**(13)**	**13**	–	–
Stage 1 to Stage 3	**(4,011)**	–	**4,011**	–
Stage 2 to Stage 1	**67,082**	**(67,082)**	–	–
Stage 3 to Stage 1	**651,297**	–	**(651,297)**	–
New assets originated	**47,758**	**141,511**	**37,028**	**226,297**
Net remeasurement	**186,231**	**11,954**	**2,429,402**	**2,627,587**
Assets derecognized or repaid	**(1,199,338)**	**-**	**(2,128,904)**	**(3,328,242)**
Balance at December 31	**₱176,549**	**₱153,479**	**₱889,684**	**₱1,219,712**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱9,230,954	₱ 630,212	₱11,423,792	₱21,284,958
Transfers:				
Stage 1 to Stage 2	(2,743)	2,743	–	–
Stage 1 to Stage 3	(126,615)	–	126,615	–
Stage 2 to Stage 1	117,673	(117,673)	–	–
Stage 2 to Stage 3	–	(84,581)	84,581	–
New assets originated	86,829	67,082	229,344	383,255
Net remeasurement	(5,843,938)	(2,743)	(3,354,764)	(9,201,445)
Assets derecognized or repaid	(3,034,617)	(427,957)	(7,230,928)	(10,693,502)
Write-offs	–	–	(79,196)	(79,196)
Balance at December 31	₱427,543	₱67,083	₱1,199,444	₱1,694,070

Microfinance

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,867,727**	**₱7,835**	**₱8,309,217**	**₱10,184,779**
Transfers:				
Stage 1 to Stage 3	**(205,213)**	–	**205,213**	–
Stage 2 to Stage 1	**7,835**	**(7,835)**	–	–
Stage 3 to Stage 1	**1,477,578**	–	**(1,477,578)**	–
New assets originated	**3,185,700**	–	**4,080,882**	**7,266,582**
Net remeasurement	**23,940**	–	**3,380,107**	**3,404,047**
Assets derecognized or repaid	**(3,171,867)**	–	**(431,338)**	**(3,603,205)**
Write-offs	–	–	**(4,505,547)**	**(4,505,547)**
Balance at December 31	**₱3,185,700**	**₱–**	**₱9,560,956**	**₱12,746,656**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱5,513,388	₱–	₱11,895,688	₱17,409,076
Transfers:				
Stage 1 to Stage 3	(500,950)	–	500,950	–
Stage 3 to Stage 1	1,379	–	(1,379)	–
Stage 3 to Stage 2	–	28,910	(28,910)	–
New assets originated	1,867,614	5,007	5,243,804	7,116,425
Net remeasurement	676,466	(26,082)	1,402,762	2,053,146
Assets derecognized or repaid	(5,690,170)	–	(5,924,540)	(11,614,710)
Write-offs	–	–	(4,779,158)	(4,779,158)
Balance at December 31	₱1,867,727	₱7,835	₱8,309,217	₱10,184,779

Supervised credits

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱2,575,917**	**₱974,817**	**₱17,949,041**	**₱21,499,775**
Transfers:				
Stage 1 to Stage 2	**(1,806)**	**1,806**	–	–
Stage 1 to Stage 3	**(594,364)**	–	**594,364**	–
Stage 2 to Stage 1	**593,742**	**(593,742)**	–	–
Stage 2 to Stage 3	–	**(381,074)**	**381,074**	–
Stage 3 to Stage 1	**2,311,289**	–	**(2,311,289)**	–
Stage 3 to Stage 2	–	**200,486**	**(200,486)**	–
New assets originated	**4,865,676**	**364,318**	**7,631,891**	**12,861,885**
Net remeasurement	**388,773**	**64,293**	**5,952,332**	**6,405,398**
Assets derecognized or repaid	**(5,087,353)**	**(185,032)**	**(1,032,641)**	**(6,305,026)**
Write-offs	–	–	**(7,900,204)**	**(7,900,204)**
Balance at December 31	**5,051,874**	**445,872**	**21,064,082**	**26,561,828**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱4,656,719	₱77,918	₱12,445,582	₱17,180,219
Transfers:				
Stage 1 to Stage 2	(49,259)	49,259	–	–
Stage 1 to Stage 3	(1,032,180)	–	1,032,180	–
Stage 2 to Stage 3	–	(77,918)	77,918	–
Stage 3 to Stage 1	244,327	–	(244,327)	–
Stage 3 to Stage 2	–	11,585	(11,585)	–
New assets originated	2,060,253	714,456	4,736,120	7,510,829
Net remeasurement	2,870,605	199,517	18,611,482	21,681,604
Assets derecognized or repaid	(6,174,548)	–	(1,637,285)	(7,811,833)
Write-offs	–	–	(17,061,044)	(17,061,044)
Balance at December 31	2,575,917	974,817	17,949,041	21,499,775

HTC financial assets and financial assets at FVOCI

As of December 31, 2022 and 2021, all of the Bank's HTC and FVOCI financial assets are securities classified as investment grade. The Bank assessed that the impact of ECL on these securities are not material and accordingly, no ECL was recognized for HTC financial assets and financial assets at FVOCI as of December 31, 2022 and 2021.

Loan commitments
Undrawn loan commitments do not require provision for credit losses, as these are revocable commitments.

Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of financial instruments as of December 31, 2022 and 2021 contributed to the changes in the allowance for ECL.

(a) Loans and receivables

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱2,001,088,892**	**₱5,884,372**	**₱89,395,718**	**₱2,096,368,982**
Transfers:				
Stage 1 to Stage 2	**(2,002,410)**	**2,002,410**	–	–
Stage 1 to Stage 3	**(34,092,788)**	–	**34,092,788**	–
Stage 2 to Stage 1	**3,987,881**	**(3,987,881)**	–	–
Stage 2 to Stage 3	–	**(1,078,283)**	**1,078,283**	–
Stage 3 to Stage 1	**26,876,949**	–	**(26,876,949)**	–
Stage 3 to Stage 2	–	**2,135,570**	**(2,135,570)**	–
New assets originated	**2,478,473,981**	**3,338,000**	**62,533,540**	**2,544,345,521**
Assets derecognized or repaid	**(1,974,707,302)**	**(2,483,800)**	**(35,213,481)**	**(2,012,404,583)**
Write-offs	–	–	**(12,648,407)**	**(12,648,407)**
	498,536,311	**(73,984)**	**20,830,204**	**519,292,531**
Balance at December 31	**₱2,499,625,203**	**₱5,810,388**	**₱110,225,922**	**₱2,615,661,513**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,801,672,645	₱4,362,264	₱157,506,729	₱1,963,541,638
Transfers:				
Stage 1 to Stage 2	(5,071,994)	5,071,994	–	–
Stage 1 to Stage 3	(28,523,116)	–	28,523,116	–
Stage 2 to Stage 1	2,296,993	(2,296,993)	–	–
Stage 3 to Stage 1	12,175,089	–	(12,175,089)	–
Stage 3 to Stage 2	–	576,258	(576,258)	–
New assets originated	2,138,552,803	2,661,000	39,726,076	2,180,939,879
Assets derecognized or repaid	(1,920,013,528)	(4,490,151)	(101,689,458)	(2,026,193,137)
Write-offs	–	–	(21,919,398)	(21,919,398)
	199,416,247	1,522,108	(68,111,011)	132,827,344
Balance at December 31	₱2,001,088,892	₱5,884,372	₱89,395,718	₱2,096,368,982

Above presentation includes balances of receivables from customers and other receivables. Presented below are the reconciliation of gross carrying amount of receivables from customers per loan portfolio.

Receivables from customers

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,961,661,705**	**₱5,644,666**	**₱54,597,158**	**₱2,021,903,529**
Transfers:				
Stage 1 to Stage 2	**(1,974,417)**	**1,974,417**	–	–
Stage 1 to Stage 3	**(27,867,487)**	–	**27,867,487**	–
Stage 2 to Stage 1	**3,878,605**	**(3,878,605)**	–	–
Stage 2 to Stage 3	–	**(1,078,283)**	**1,078,283**	–
Stage 3 to Stage 1	**20,246,516**	–	**(20,246,516)**	–
Stage 3 to Stage 2	–	**326,944**	**(326,944)**	–
New assets originated	**2,403,436,393**	**3,338,000**	**40,526,500**	**2,447,300,893**
Assets derecognized or repaid	**(1,972,742,753)**	**(2,305,727)**	**(28,593,674)**	**(2,003,642,154)**
Write-offs	–	–	**(12,405,751)**	**(12,405,751)**
	424,976,857	**(1,623,254)**	**7,899,385**	**431,252,988**
Balance at December 31	**₱2,386,638,562**	**₱4,021,412**	**₱62,496,543**	**₱2,453,156,517**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,630,687,815	₱3,969,757	₱112,223,186	₱1,746,880,758
Transfers:				
Stage 1 to Stage 2	(4,920,398)	4,920,398	–	–
Stage 1 to Stage 3	(25,326,644)	–	25,326,644	–
Stage 2 to Stage 1	2,176,915	(2,176,915)	–	–
Stage 3 to Stage 1	6,593,601	–	(6,593,601)	–
Stage 3 to Stage 2	–	564,942	(564,942)	–
New assets originated	2,133,630,103	2,661,000	32,629,576	2,168,920,679
Assets derecognized or repaid	(1,781,179,687)	(4,294,516)	(86,504,307)	(1,871,978,510)
Write-offs	–	–	(21,919,398)	(21,919,398)
	330,973,890	1,674,909	(57,626,028)	275,022,771
Balance at December 31	₱1,961,661,705	₱5,644,666	₱54,597,158	₱2,021,903,529

Regular loans

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,642,825,904**	**₱2,838,961**	**₱18,103,496**	**₱1,663,768,361**
Transfers:				
Stage 1 to Stage 2	**(1,177,412)**	**1,177,412**	–	–
Stage 1 to Stage 3	**(8,427,661)**	–	**8,427,661**	–
Stage 2 to Stage 1	**2,151,183**	**(2,151,183)**	–	–
Stage 3 to Stage 1	**12,045,826**	–	**(12,045,826)**	–
Stage 3 to Stage 2	–	**100,517**	**(100,517)**	–
New assets originated	**1,596,073,393**	**1,360,000**	**5,889,000**	**1,603,322,393**
Assets derecognized or repaid	**(1,263,556,055)**	**(1,106,219)**	**(2,477,591)**	**(1,267,139,865)**
Write-offs	–	–	–	–
Balance at December 31	**₱1,979,935,178**	**₱2,219,488**	**₱17,796,223**	**₱1,999,950,889**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,410,751,623	₱3,815,964	₱39,863,127	₱1,454,430,714
Transfers:				
Stage 1 to Stage 2	(4,310,858)	4,310,858	–	–
Stage 1 to Stage 3	(9,503,936)	–	9,503,936	–
Stage 2 to Stage 1	2,176,915	(2,176,915)	–	–
Stage 3 to Stage 1	4,020,751	–	(4,020,751)	–
New assets originated	1,478,533,438	130,000	3,070,000	1,481,733,438
Assets derecognized or repaid	(1,238,842,029)	(3,240,946)	(30,233,620)	(1,272,316,595)
Write-offs	–	–	(79,196)	(79,196)
Balance at December 31	₱1,642,825,904	₱2,838,961	₱18,103,496	₱1,663,768,361

Microfinance

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱144,321,332**	**₱34,302**	**₱13,353,517**	**₱157,709,151**
Transfers:				
Stage 1 to Stage 3	**(4,989,412)**	–	**4,989,412**	–
Stage 2 to Stage 1	**34,302**	–	**(34,302)**	–
Stage 3 to Stage 1	**4,195,953**	–	**(4,195,953)**	–
New assets originated	**406,637,000**	–	**11,833,500**	**418,470,500**
Assets derecognized or repaid	**(412,088,138)**	–	**(9,198,033)**	**(421,286,171)**
Write-offs	–	–	**(4,505,547)**	**(4,505,547)**
Balance at December 31	**₱138,111,037**	**₱–**	**₱12,242,594**	**₱150,387,933**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱117,391,632	–	₱23,993,007	₱141,384,639
Transfers:				
Stage 1 to Stage 3	(3,012,352)	–	3,012,352	–
Stage 3 to Stage 1	17,794	–	(17,794)	–
Stage 3 to Stage 2	–	42,000	(42,000)	–
New assets originated	398,071,000	81,000	18,716,000	416,868,000
Assets derecognized or repaid	(368,146,742)	(88,698)	(27,528,890)	(395,764,330)
Write-offs	–	–	(4,779,158)	(4,779,158)
Balance at December 31	₱144,321,332	₱34,302	₱13,353,517	₱157,709,151

Supervised credits

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱174,514,468**	**₱2,771,403**	**₱23,140,146**	**₱200,426,017**
Transfers:				
Stage 1 to Stage 2	**(797,005)**	**797,005**	–	–
Stage 1 to Stage 3	**(14,450,414)**	–	**14,450,414**	–
Stage 2 to Stage 1	**1,693,121**	**(1,693,121)**	–	–
Stage 2 to Stage 3	–	**(1,078,283)**	**1,078,283**	–
Stage 3 to Stage 1	**4,004,737**	–	**(4,004,737)**	–
Stage 3 to Stage 2	–	**226,427**	**(226,427)**	–
New assets originated	**400,726,000**	**1,978,000**	**22,804,000**	**425,508,000**
Assets derecognized or repaid	**(297,098,559)**	**(1,199,507)**	**(16,918,052)**	**(315,216,118)**
Write-offs	–	–	**(7,900,204)**	**(7,900,204)**
Balance at December 31	**₱268,592,348**	**₱1,801,924**	**₱32,423,423**	**₱302,817,695**

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱102,544,559	₱153,793	₱48,367,052	₱151,065,404
Transfers:				
Stage 1 to Stage 2	(609,540)	609,540	–	–
Stage 1 to Stage 3	(12,810,356)	–	12,810,356	–
Stage 3 to Stage 1	2,555,055	–	(2,555,055)	–
Stage 3 to Stage 2	–	522,942	(522,942)	–
New assets originated	257,025,665	2,450,000	10,843,576	270,319,241
Assets derecognized or repaid	(174,190,915)	(964,872)	(28,741,797)	(203,897,584)
Write-offs	–	–	(17,061,044)	(17,061,044)
Balance at December 31	₱174,514,468	₱2,771,403	₱23,140,146	₱200,426,017

(b) HTC financial assets and financial assets at FVOCI

As of December 31, 2022 and 2021, all of the Bank's HTC and FVOCI financial assets are securities classified as investment grade and accordingly are under Stage 1. There were no significant movement in the Bank's HTC financial assets and financial assets at FVOCI during the year that affected the allowance for ECL (see Note 9).

Collateral

Quality of collateral is one of the considerations in granting of loan as this is an alternative way of collecting from the borrower in case of default. Collateral is valued according to existing credit policies, with the appraisal report as basis of the computed loan value.

As part of the Bank's risk control, a central unit is charged to handle collateral documentation wherein standard documents are used. Any deviation from these pro-forma documents are subject to Executive Credit Committee's approval prior to use and acceptance.

The table below provides the collateral profile of the outstanding loan portfolio (receivables from customers) of the Bank as of December 31, 2022 and 2021.

	2022	2021
Directors, officers, stockholders and related interests (DOSRI) loans		
Secured - Non-risk assets	**₱124,802**	₱268,578
Others	**301,071**	–
	425,873	268,578
Non-DOSRI loans		
Secured:		
Real estate mortgage	**1,621,405,478**	1,324,233,922
Non-risk assets	**42,178,293**	35,096,414
Others	**136,970,622**	86,666,328
	1,800,554,393	1,445,996,664
Unsecured	**652,176,249**	575,638,287
	₱2,453,156,515	₱2,021,903,529

Others on DOSRI includes back-to-back loans secured by hold-out deposits. Others on the non-DOSRI loans includes chattel mortgages. Non-risk assets are securities covered by back-to-back on deposits.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2022 and 2021 are presented below:

December 31, 2022

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Real properties	**₱2,320,961,462**	**₱5,666,786**	**₱8,243,971**	**₱2,334,872,219**
Chattel	**165,965,235**	**650,000**	**300,069,598**	**466,684,833**
Hold-out deposits	**52,025,556**	**–**	**1,115,500**	**53,141,056**
Others	**50,635,424**	**–**	**2,831,122**	**53,466,546**
	₱2,589,587,677	**₱6,316,786**	**₱312,260,191**	**₱2,908,164,654**

December 31, 2021

	Stage 1	Stage 2	Stage 3	Total
Real properties	₱4,608,890,309	₱11,568,925	₱38,777,428	₱4,659,236,662
Chattel	118,802,790	680,000	56,576,667	176,059,457
Hold-out deposits	40,038,365	–	1,195,770	41,234,135
Others	31,129,252	–	4,376,944	35,506,196
	₱4,798,860,716	₱12,248,925	₱100,926,809	₱4,912,036,450

The Bank normally grants loans to borrowers at a rate ranging between 60% to 80% of the latest appraised value of the borrowers' collateral. Others include outstanding balance guaranteed by Agricultural Guarantee Fund Pool.

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

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

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

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

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

Other Information on Credit Risk
The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks wsith high quality external credit ratings. Included in cash and cash equivalents are cash in banks and short-term investments which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

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

The main responsibility of daily asset liability management lies with the Treasury Unit. Liquidity risk management is monitored through Asset-Liability Management Committee. The Bank's principal source of liquidity is comprised of cash and other cash items, due from BSP and due from other banks.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

December 31, 2022

	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	More than 1 Year	Total
Resources					
Cash and other cash items	₱48,527,975	₱–	₱–	₱–	₱48,527,975
Due from BSP	142,174,904	–	–	–	142,174,904
SPURRA	51,741,227	–	–	–	51,741,227
Due from other banks	118,277,909	–	–	–	118,277,909
Financial assets at FVOCI	–	–	19,998,573	48,036,066	68,034,639
HTC financial assets	–	70,383,710	–	365,715,326	436,099,036
Loans and other receivables – net	107,581,985	166,625,205	407,817,463	1,837,914,670	2,519,939,323
Refundable deposits	93,122	61,025	8,000	368,638	530,785
	468,397,122	237,069,940	427,824,036	2,252,034,700	3,385,325,798
Liabilities:					
Deposit liabilities	2,339,221,561	227,505,945	190,339,746	120,365,011	2,877,432,263
Other liabilities	41,102,161	1,895,417	2,322,691	21,532,229	66,852,498
	2,380,323,722	229,401,362	192,662,437	141,897,240	2,944,284,761
Net periodic surplus (gap)	(1,911,926,600)	7,668,578	235,161,599	2,110,137,460	₱441,041,037
Cumulative total surplus (gap)	(₱1,911,926,600)	(₱1,904,258,022)	(₱1,669,096,423)	₱441,041,037	

December 31, 2021

	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	More than 1 Year	Total
Resources					
Cash and other cash items	₱57,505,770	₱–	₱–	₱–	₱57,505,770
Due from BSP	223,669,489	–	–	–	223,669,489
Due from other banks	146,703,242	48,246,569	44,000,000	–	238,949,811
Financial assets at FVOCI	–	16,035,060	20,417,872	109,836,726	146,289,658
HTC financial assets	–	–	–	376,363,407	376,363,407
Loans and other receivables – net	82,870,900	116,695,254	392,384,257	1,468,571,549	2,060,521,960
Refundable deposits	125,397	2,000	26,025	493,859	647,281
	510,874,798	180,978,883	456,828,154	1,955,265,541	3,103,947,376
Liabilities:					
Deposit liabilities	2,406,910,442	273,441,736	76,575,216	20,146,746	2,777,074,140
Other liabilities	36,927,602	1,091,130	1,476,147	28,751,873	68,246,752
	2,443,838,044	274,532,866	78,051,363	48,898,619	2,845,320,892
Net periodic surplus (gap)	(1,932,963,246)	(93,553,983)	378,776,791	1,906,366,922	₱258,626,484
Cumulative total surplus (gap)	(₱1,932,963,246)	(₱2,026,517,229)	(₱1,647,740,438)	₱258,626,484	

Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2020.

To promote the short-term resilience of the liquidity risk profile, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Bank management and/or the BSP.

Details of the Bank's LCR as of December 31, 2022 and 2021 are summarized below.

	2022	2021
Total stock of HQLA	**₱720,438,281**	₱774,585,924
Expected Net Cash Outflows	**184,379,708**	186,619,156
Liquidity Coverage Ratio	**390.74%**	415.06%

Net Stable Funding Ratio

To promote long-term resilience of the bank against liquidity risk, the bank maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities.

NSFR seeks to limit the overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. It complements the Liquidity Coverage Ratio (LCR), which promotes short term resilience of a bank's/QB's liquidity profile. The NSFR applies to all universal and commercial banks (UBs/KBs) and their subsidiary banks and QBs on both solo and consolidated bases.

Details of the Bank's NSFR as of December 31, 2022 and 2021 are summarized below (amounts in thousands):

	2022	2021
Available Stable Funding	**₱3,163,291**	3,006,559
Required Stable Funding	**2,213,583**	1,958,322
Net Stable Funding Ratio	**143%**	154%

Basel III Leverage Ratio (BLR)

BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%.

The details of the BLR as of December 31, 2022 and 2021 are as follows (amounts in thousands):

	2022	2021
Tier 1 Capital*	**₱561,641**	₱488,312
Exposure Measure*	**3,606,961**	3,372,098
BLR	**15.57%**	14.48%

**The amounts are based on the audited balances, and therefore, were not the same with the amounts previously reported to the BSP*

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or Republic Act (RA) No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safekeeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

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

The Compliance Unit of the Bank, headed by the CCO, monitors the Bank's compliance on the implementation and management of MLPP. The Branch Operations Head is the compliance officer at the branch level, that oversees the daily activities of the branch. The CCO regularly reports to the Corporate Governance Committee and to the BOD the results of their monitoring of AMLA compliance.

In an effort to further prevent money laundering activities, the Bank strengthens its KYC policies and guidelines. New individual customers shall establish their true and full identity, and shall maintain an account only in the true and full name of the account owner. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Politically-Exposed Persons are automatically profiled as high risk and subject to enhanced due diligence. Any suspicious transaction is reported to the Bank's AML Committee, who investigates and deliberates whether the transaction has a valid ground to be reported as Suspicious Transaction Report.

5. Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as of December 31, 2022 and 2021 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets presented at net in the statements of financial position.

Presented below are the financial assets subject to offsetting in the event of default but the related amounts are not set-off in the statements of financial position.

As at December 31, 2022

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial Assets						
Loans and receivables	₱2,571,680,550	₱–	₱2,571,680,550	₱–	₱42,604,167	₱2,529,076,383
Securities purchased under resale agreement	51,741,227	₱–	₱51,741,227	₱51,741,227	–	–
Financial Liabilities						
Deposit liabilities	2,877,432,263	–	2,877,432,263	–	42,604,167	2,834,828,096

As at December 31, 2021

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial Assets						
Loans and receivables	**₱2,060,521,960**	**₱–**	**₱2,060,521,960**	**₱–**	**₱43,745,549**	**₱2,016,776,410**
Financial Liabilities						
Deposit liabilities	**2,777,074,140**	**–**	**2,777,074,140**	**–**	**43,745,549**	**2,733,328,591**

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertain to:

(a) Hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables; and,

(b) Securities purchased under resale agreements (SPURA) pertain to overnight placements with the BSP, where the underlying securities cannot be sold or repledged. The Bank is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral.

6. Fair Value Measurement and Disclosure

Fair Value Hierarchy

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

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

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

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

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

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

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

Fair Value Disclosures for Financial Instruments
The table below shows the carrying values and fair value hierarchy of the Bank's financial assets measured in the statements of financial position as of December 31, 2022 and 2021 (amounts in thousands).

		December 31,2022			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value					
Financial assets at FVOCI:					
Government debt securities	**₱9,263**	**₱9,263**	**₱–**	**₱–**	**₱9,263**
Corporate debt securities	**58,349**	**58,349**	–	–	**58,349**
Financial assets for which fair value is disclosed					
Loans and other receivables	**2,569,539**	–	–	**2,295,514**	**2,295,514**
Debt securities - HTC financial assets	**434,735**	**419,024**	–	–	**419,024**
	₱3,071,886	**₱486,636**	**₱–**	**₱2,295,514**	**₱2,782,150**

		December 31, 2021			
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value					
Financial assets at FVOCI:					
Government debt securities	₱50,306	₱50,306	₱–	₱–	₱50,306
Corporate debt securities	95,249	95,249	–	–	95,249
Financial assets for which fair value is disclosed					
Loans and other receivables	2,060,522	–	–	2,008,653	2,008,653
Debt securities - HTC financial assets	375,391	320,305	–	–	320,305
	₱2,581,468	₱497,317	₱–	₱2,008,653	₱2,281,255

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows. There were no changes in Level 2 and Level 3 instruments in both years:

Cash and other cash items, due from BSP and other banks, SPURRA, deposit liabilities and other liabilities
The carrying amounts approximate fair values due to the short-term nature of these accounts.

Financial asset at FVOCI
(a) Fair values of peso-denominated government debt securities issued by the Philippine government are determined based on the reference price per Bloomberg which uses BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparable.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current bid price per Philippine Dealing & Exchange Corp.

Loans and receivables
Loans and receivables are net of provisions for credit losses. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

HTC Financial Assets
These financial assets consist of government and corporate bonds. The fair value of these financial assets is determined by the direct reference to published price quoted in an active market as of reporting date.

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

		December 31, 2022			
	Carrying values	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment properties					
Land	**₱42,490,213**	**₱–**	**₱–**	**₱89,033,575**	**₱89,033,575**
Buildings	**21,358,179**	**–**	**–**	**43,136,880**	**43,136,880**
	₱63,848,392	**₱–**	**₱–**	**₱132,170,455**	**₱132,170,455**

		December 31, 2021			
	Carrying values	Level 1	Level 2	Level 3	Total
Investment properties					
Land	₱75,837,158	₱–	₱–	₱185,619,364	₱185,619,364
Buildings	20,864,741	–	–	23,596,843	23,596,843
	₱96,701,887	₱–	₱–	₱209,216,207	₱209,216,207,

The fair value of the Bank's land, buildings and equipment classified under Investment Properties (see Note 12) are determined on the basis of the appraisals performed by an independent and 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, buildings and equipment, 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 in the preceding page, as determined by the appraisers, were used by the Bank in determining the fair value of investment properties.

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

(a) Fair Value Measurement of Land

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

(b) Fair Value Measurement of Buildings and Improvements

The Level 3 fair value of the buildings and equipment, on the other hand, was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy for the years ended December 31, 2022 and 2021.

7. Cash, Due from Bangko Sentral Ng Pilipinas and SPURRA

This account is composed of the following:

	2022	2021
Cash and other cash items	**₱48,527,975**	₱57,505,770
Due from BSP:		
Mandatory reserves (Note 15)	**16,012,417**	33,456,724
Non-mandatory reserves	**126,162,487**	190,212,765
	142,174,904	223,669,489
SPURRA	**51,741,227**	–
	₱242,444,106	₱281,175,259

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements. During the pandemic on April 16, 2020, as part of BSP relief, it allowed banks to use their loans to MSME and large enterprise as part of bank's alternative compliance against deposit liabilities and deposit substitutes and further extended up to June 2023.

Interest income earned in 2022 and 2021 amounted to ₱4.8 million and ₱6.8 million, respectively, which are presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

8. Due from Other Banks

The breakdown of due from other banks by currency follows:

	2022	2021
Philippine pesos	**₱118,199,934**	₱238,881,230
United States dollars	**77,975**	68,581
	₱118,277,909	₱238,949,811

Due from other banks includes regular and time deposits with local banks. Annual interest rates on these deposits ranges from 0.0% to 2.0% and from 0.0% to 3.0% for the years ended December 31, 2022 and 2021 respectively. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to ₱0.7 million, and ₱2.4 million in 2022 and 2021, respectively, and is presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

9. Investment Securities

Financial Assets at Fair Value Through Other Comprehensive Income
Financial assets at fair value through other comprehensive income as of December 31, 2022 and 2021 consist of:

	2022	2021
Corporate	**₱58,349,125**	₱95,248,621
Government bonds	**9,262,648**	50,306,425
	₱67,611,773	₱145,555,046

The Bank incurred fair value losses amounting to ₱1.9 million for the year ended December 31, 2022 and fair value gains of ₱5.7 million for the year ended December 31,2021 on its financial assets at FVOCI, which are recognized in other comprehensive income and presented in the statements of comprehensive income under items that will be reclassified subsequently to profit or loss.

The maturity profile of this account is presented below.

	2022	2021
Within one year	**₱19,871,960**	₱36,349,743
Between one year and five years	**47,739,813**	109,205,303
	₱67,611,773	₱145,555,046

Interest income generated from financial assets at FVOCI in 2022 and 2021 amounted to ₱5.5 million and ₱7.6 million, respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Interest rates on these investments for the years ended December 31, 2022 and 2021 range from 3.5% to 5.75% and from 3.25% to 5.75%, respectively.

Changes in the Bank's holdings of financial assets at FVOCI are summarized below.

	2022	2021
Balance at beginning of year	**₱145,555,046**	₱181,217,647
Fair value loss	**(1,943,273)**	(5,662,601)
Maturities	**(76,000,000)**	(30,000,000)
	₱67,611,773	₱145,555,046

The Bank's financial assets at FVOCI, which are subject to credit risk exposure (see Note 4), have been reviewed for impairment. Based on such review, the management determines that the related expected credit losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets for years ended December 31, 2022 and 2021.

Held-to-Collect Financial Assets
HTC financial assets consist of:

	2022	2021
Government bonds	**₱344,735,084**	₱285,391,478
Corporate	**90,000,000**	90,000,000
	₱434,735,084	₱375,391,478

The maturity profile of this account is presented below.

	2022	2021
Within one year	**₱70,050,000**	₱–
Between one years and five years	**345,450,000**	275,500,000
Beyond five years	**20,000,000**	100,000,000
	435,500,000	375,500,000
Unamortized discount	**(764,916)**	(108,522)
	₱434,735,084	₱375,391,478

Interest income generated from HTC financial assets for the years ended December 31, 2022 and 2021 amounted to ₱17.7 million and ₱12.1 million respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Interest rate on these investments for the years ended December 31, 2022 and 2021 range from 2.38% to 6.25% and 2.38% to 6.25%, respectively.

Changes in the Bank's holdings of HTC financial assets are summarized below.

	2022	2021
Balance at beginning of year	**₱375,500,000**	₱255,050,000
Additions	**60,000,000**	210,450,000
Maturities	**–**	(90,000,000)
	435,500,000	375,500,000
Unamortized discount	**(764,916)**	(108,522)
	₱434,735,084	₱375,391,478

10. **Loans and Other Receivables**

This account consists of the following:

	2022	2021
Receivables from customers:		
Loans and discounts	**₱2,467,915,668**	₱2,035,714,648
Unearned discount	**(14,759,151)**	(13,811,119)
	2,453,156,517	2,021,903,529
Other receivables:		
Sales contract receivable (SCR)	**79,668,543**	46,616,936
Accrued interest receivable	**28,408,663**	26,338,808
Accounts receivable	**2,686,563**	1,509,710
	110,763,769	74,465,454
	2,563,920,286	2,096,368,983
Allowance for impairment	**(43,980,963)**	(35,847,023)
	₱2,519,939,323	₱2,060,521,960

Interest rates on receivables from customers range from 3.15% to 65.0% and from 3.25% to 61.0% assets in 2022 and 2021 respectively. Interest rates on SCR range from 7.0% to 12% and from 8.0% to 12% for 2022 and 2021 respectively. All receivables from customers have fixed interest rate and all other receivables are noninterest bearing, unsecured and are generally payable on demand.

Total interest income earned from loans and other receivables amounted to ₱356.1 million and ₱273.8 million for the years ended December 31, 2022 and 2021, respectively, and are presented as Interest Income on Loans and Other Receivables in the statements of income.

Maturity Profile of Receivables from Customers
The maturity profile of the Bank's receivables from customers, gross of allowance for impairment loss, follows:

	2022	2021
Within one year	**₱562,336,374**	₱512,313,268
Beyond one year but within five years	**695,199,441**	392,376,631
Beyond five years	**1,195,620,702**	1,117,213,630
	₱2,453,156,517	₱2,021,903,529

Receivables from customers (before allowance of impairment losses) have the following types and category of loans:

	2022	2021
Current loans:		
Agra and other agri credits	**₱417,153,838**	₱366,072,943
Small and medium enterprises	**1,004,153,219**	837,939,191
Private corporations	**327,409,347**	216,241,976
Microenterprise loans	**265,009,749**	221,034,935
Individuals for housing purposes	**276,300,461**	241,880,230
Individuals for consumption purposes	**93,631,075**	74,216,573
Individuals for other purposes	**2,980,874**	4,275,856
	2,386,638,563	1,961,661,705
Past due loans:		
Agra and other agri credits	**7,580,262**	8,294,739
Small and medium enterprises	**22,558,590**	15,669,830
Microenterprise loans	**25,354,717**	22,762,027
Individuals for housing purposes	**9,829,425**	7,757,660
Individuals for consumption purposes	**1,163,399**	5,505,956
Individuals for other purposes	**31,561**	251,613
	66,517,954	60,241,824
	₱2,453,156,517	₱2,021,903,529

The maturity profile of the Bank's SCR from customers, gross of allowance for impairment loss, follows:

	2022	2021
Within one year	**₱4,000,000**	₱4,091,667
Beyond one year but within five years	**3,697,771**	3,825,380
Beyond five years	**71,970,771**	38,699,889
	₱79,668,543	₱46,616,936

Refer to Note 4 for the reconciliation of allowance for impairment for the years ended December 31, 2022 and 2021.

The Bank recovered certain loans and receivables previously written-off. Such recoveries amounted to ₱7.0 million and ₱4.6 million in 2022 and 2021, respectively, and are presented under 'other income' in the statements of income (Note 18).

11. Bank Premises, Furniture, Fixtures and Equipment

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of the years ended December 31, 2022 and 2021 are shown below.

	December 31, 2022						
	Land	**Building and Improvements**	**Furniture, Fixtures, and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Right-of-Use Asset**	**Total**
Cost or valuation	**₱62,614,860**	**₱76,816,565**	**₱82,739,560**	**₱38,853,803**	**₱29,956,760**	**₱34,609,445**	**₱325,590,993**
Accumulated depreciation and amortization	–	**(68,825,042)**	**(67,805,147)**	**(15,091,857)**	**(24,832,823)**	**(15,665,728)**	**(192,220,597)**
Net carrying amount	**₱62,614,860**	**₱7,991,523**	**₱14,934,413**	**₱23,761,946**	**₱5,123,938**	**₱18,943,716**	**₱133,370,396**

	December 31, 2021						
	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Cost or valuation	₱62,614,860	₱76,224,508	₱79,160,970	₱34,929,838	₱29,956,760	₱34,609,445	₱317,496,382
Accumulated depreciation and amortization	–	(67,754,540)	(68,520,501)	(15,173,090)	(22,739,595)	(10,642,840)	(184,830,566)
Net carrying amount	₱62,614,860	₱8,469,968	₱10,640,469	₱19,756,748	₱7,217,166	₱23,966,605	₱132,665,815

Reconciliations of the carrying amounts at the beginning and end of the years ended December, 2022 and 2021 are shown below.

	Land	**Building and Improvements**	**Furniture, Fixtures, and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Right-of-Use Asset**	**Total**
Balance at January 1, 2022, net accumulated depreciation and amortization	**₱62,614,860**	**₱8,469,968**	**₱10,640,469**	**₱19,756,748**	**₱7,217,166**	**₱23,966,604**	**₱132,665,815**
Additions	–	**592,057**	**10,341,826**	**11,145,550**	–	–	**22,079,433**
Disposals	–	–	**(26,957)**	**(3,548,052)**	–	–	**(3,575,009)**
Depreciation and amortization charges for the year	–	**(1,070,502)**	**(6,020,925)**	**(3,592,299)**	**(2,093,228)**	**(5,022,889)**	**(17,799,843)**
Balance at December 31, 2022, net accumulated depreciation and amortization	**₱62,614,860**	**₱7,991,523**	**₱14,934,413**	**₱23,761,947**	**₱5,123,938**	**₱18,943,715**	**₱133,370,396**

	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Balance at January 1, 2021, net accumulated depreciation and amortization	₱62,614,860	₱9,395,553	₱6,777,933	₱17,567,113	₱9,390,224	₱23,063,850	₱128,809,532
Additions	–	135,746	8,701,158	6,840,500	71,700	6,397,101	22,146,205
Disposals	–	–	(47,898)	(1,155,000)	–		(1,202,898)
Depreciation and amortization charges for the year	–	(1,061,331)	(4,790,724)	(3,495,865)	(2,244,758)	(5,494,347)	(17,087,025)
Balance at December 31, 2021 net accumulated depreciation and amortization	₱62,614,860	₱8,469,968	₱10,640,469	₱19,756,748	₱7,217,166	₱23,966,605	₱132,665,815

As of December 31, 2022 and 2021, the Bank wrote-off certain furniture, fixtures and equipment with an aggregate book value of ₱0.03 million and ₱0.05 million, respectively. Losses from such write-off are included as part of Others under Other Operating Expenses account in the statements of income (see Note 18).

As of December 31, 2022, certain transportation equipment under car plan matured. The Bank's gain on sale of non-financial asset amounted to ₱0.57 million and ₱0.1 million for the years ended December 31, 2022 and 2021, respectively, and presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 18).

Depreciation and amortization on bank premises, furniture, fixtures and equipment are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 18).

The gross carrying amount of fully depreciated bank premises, furniture, fixtures and equipment that are still in use as of December 31, 2022 and 2021 amounted to ₱140.2 million and ₱133.2 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment does not exceed 50% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this requirement.

12. Investment Properties

The gross carrying amounts and accumulated depreciation and impairment of investment properties as of December 31, 2022 and at the beginning and end of 2021 are shown below.

	December 31, 2022			
	Land	**Building and Improvements**	**Others**	**Total**
Cost	**₱42,490,213**	**₱24,184,674**	**₱2,769,926**	**₱69,444,813**
Accumulated depreciation	–	**(4,468,588)**	**(1,127,833)**	**(5,596,421)**
	₱42,490,213	**₱19,716,086**	**₱1,642,093**	**₱63,848,392**

	December 31, 2021			
	Land	Building and Improvements	Others	Total
Cost	₱75,837,158	₱24,841,474	₱2,318,341	₱102,996,973
Accumulated depreciation	–	(5,693,185)	(601,901)	(6,295,086)
	₱75,837,158	₱19,148,289	₱1,716,440	₱96,701,887

Reconciliations of the carrying amounts of investment properties are shown below.

	Land	**Building and Improvements**	**Others**	**Total**
Balance at January 1, 2022, net accumulated depreciation and impairment	**₱75,837,158**	**₱19,148,289**	**₱1,716,440**	**₱96,701,887**
Additions	**3,301,270**	**8,117,064**	**808,200**	**12,226,534**
Disposals	**(36,648,203)**	**(5,373,964)**	**(316,991)**	**(42,339,158)**
Impairment loss for the year	-	–	**(26,510)**	**(26,510)**
Depreciation for the year	–	**(2,175,302)**	**(539,059)**	**(2,714,361)**
Balance at December 31, 2022 net of accumulated depreciation and impairment	**₱42,490,225**	**₱19,716,087**	**₱1,642,080**	**₱63,848,392**

	Land	Building and Improvements	Others	Total
Balance at January 1, 2021, net accumulated depreciation and impairment	₱61,309,711	₱14,238,402	₱3,864,138	₱79,412,251
Additions	33,760,919	8,868,262	5,664,306	48,293,487
Disposals	(19,233,472)	(1,559,387)	(6,612,180)	(27,405,039)
Impairment loss for the year	-	–	–	-
Depreciation for the year	–	(2,398,988)	(1,199,824)	(3,598,812)
Balance at December 31, 2021 net of accumulated depreciation and impairment	₱75,837,158	₱19,148,289	₱1,716,440	₱96,701,887

As of December 31, 2022 and 2021, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱10.7 million and ₱0.9 million, respectively.

Depreciation on investment properties is presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 18).

Fair value of the Bank's investment properties as of December 31, 2022 and 2021 amounted to ₱132.1 million, ₱209.2 million, respectively (see Note 6).

In 2022 and 2021, recognized gains on sale of investment properties amounted to ₱18.1 million and ₱10.1 million, respectively, and are presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 18). Real property taxes and other litigation expenses related to these investment properties paid by the Bank and recognized as expense amounted to ₱0.9 million and ₱1.1 million for both 2022 and 2021, respectively and are presented as part of Litigation under Other Operating Expenses in the statements of income (see Note 18).

As of December 31, 2022 and 2021, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

13. **Other Resources**

This account consists of the following:

	2022	2021
Deferred tax assets - net (Note 20)	**₱18,616,823**	₱20,037,417
Computer software – net	**8,342,029**	2,601,613
Electronic wallet	**2,677,574**	1,504,132
Retirement benefit plan asset (Note 19)	**2,454,736**	1,092,487
Architectural design – net	**2,142,000**	2,142,000
Office supplies	**2,045,557**	2,280,099
Prepaid expenses	**1,311,946**	3,804,698
Refundable deposits	**530,785**	647,281
Miscellaneous	**5,152,144**	5,232,018
	₱43,273,594	₱39,341,745

In 2021, management reassessed the probability of future economic benefit arising from the cost related to architectural design in view of the Bank's updated plan for constructing a new executive building, and considering the plan of merger with other two banks within the UBP Group. Management provided an allowance amounting to ₱2.1 million in 2021, this is included under Other Asset-Allowances.

Miscellaneous assets include documentary stamps, electronic fund wallet and postage stamps.

Breakdown of other resources as to maturity is shown below.

	2022	2021
Current	**₱13,860,006**	₱13,468,338
Non-current	**29,413,588**	25,873,407
	₱43,273,594	₱39,341,745

Movements of computer software is shown below.

	2022	2021
Balance at beginning of year	**₱2,601,613**	₱1,601,368
Additions	**7,867,041**	2,095,610
Amortization (Note 18)	**(2,126,625)**	(1,095,365)
Balance at end of year	**₱8,342,029**	₱2,601,613

14. **Leases**

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from three to 15 years under renewable options, and include escalation rates ranging from 5% to 10%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furnitures, Fixtures and Equipment (see Note 11) and a lease liability under Other Liabilities (see Note 16) in the statements of financial position. The Bank recognized Right-of-use asset with average remaining term of five years as of December 31, 2022 and 2021.

In 2022 and 2021, expenses related to lease arrangements recognized in the profit or loss follows:

	December 31, 2022	December 31, 2021
Depreciation expense (Note 11)	**₱5,022,889**	₱5,494,347
Interest expense	**1,172,891**	1,306,451
Rent expense - short term leases (Note 18)	**2,682,100**	2,156,377
	₱8,877,880	₱8,957,175

Set out below are the carrying amounts of right of use assets and lease liability as of December 31, 2022 and 2021 and the related movements during the period:

	Right-of-use assets	Lease liabilities
As at January 01, 2021	₱23,063,850	₱23,749,670
Additions	6,397,101	6,397,101
Depreciation	(5,494,347)	–
Payments	–	(5,447,213)
Accretion of interest	–	1,306,451
As at December 31, 2021	23,966,604	26,006,009
Additions		
Depreciation	(5,022,889)	–
Payments	–	(5,646,671)
Accretion of interest	–	1,172,891
As at December 31, 2022	₱18,943,715	₱21,532,228

The maturity analysis of lease liability as at December, 2022 and 2021 are as follows:

	December 31, 2022						
	Within 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Lease payments	**₱6,061,422**	**₱6,115,546**	**₱6,183,000**	**₱3,172,653**	**₱1,975,531**	**₱306,844**	**₱23,769,996**
Interest expense	**(934,676)**	**(653,569)**	**(388,119)**	**(193,266)**	**(65,599)**	**(2,539)**	**2,237,768)**
Net present values	**₱4,414,306**	**₱5,461,977**	**₱5,794,881**	**₱2,979,387**	**₱1,909,932**	**₱304,305**	**₱21,532,228**

	December 31, 2021						
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	₱5,577,039	₱5,923,797	₱6,070,235	₱6,252,458	₱3,326,191	₱2,282,375	₱29,432,095
Interest expense	(1,162,735)	(929,708)	(672,049)	(399,236)	(194,220)	(68,138)	(3,426,086)
Net present values	₱4,414,304	₱4,994,089	₱5,398,186	₱5,853,222	₱3,131,971	₱2,214,237	₱26,006,009

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

15. **Deposit Liabilities**

The breakdown of deposit liabilities per classification follows:

	2022	2021
Demand	**₱10,002,313**	₱8,473,098
Savings	**2,157,097,095**	2,225,160,577
Time	**710,332,855**	543,440,465
	₱2,877,432,263	₱2,777,074,140

Deposit liabilities are in the form of savings and time deposits with annual interest rates ranging from 0.15% to 7.0% both as of December 31, 2022 and 2021. Demand deposits, on the other hand, do not bear interest. In 2022 and 2021, interest expense incurred on savings deposits amounted to ₱3.3 million, and ₱5.4 million, respectively, while interest expense incurred on time deposits amounted to ₱8.2 million, and ₱6.1 million, respectively. These are presented as Interest Expense on Deposit Liabilities in the statements of income. Interest payable as of December 31, 2022 and 2021 amounted to ₱5.3 million and ₱6.4 million, respectively, and are presented as part of Accrued interest payable under Other Liabilities account in the statements of financial position (see Note 16).

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 3% for demand, savings and time deposit. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the amendment, cash and other cash items are no longer considered as eligible reserves. The Bank is in compliance with these BSP regulations as of the end of each reporting period (see Note 7).

The maturity profile of deposit liabilities is shown below.

	2022	2021
Within one year	**₱2,717,830,534**	₱2,756,927,394
Beyond one year but less than five years	**159,601,729**	20,146,746
	₱2,877,432,263	₱2,777,074,140

16. **Bills Payable and Other Liabilities**

Bills payable

As of December 31, 2022, the balance of bills payable amounted to ₱50.0 million with 5.1% annual interest rate and total interest expenses incurred amounted to ₱0.4 million.

Other liabilities

This account consists of:

	2022	2021
Lease liability (Note 14)	**21,532,228**	26,006,009
Account payable	**19,446,935**	17,997,037
Accrued expenses	**17,089,549**	15,531,196
Accrued interest payable (Note 15)	**5,725,274**	6,396,691
Advances from customers	**17,467,442**	5,060,703
Gross receipts tax payable	**5,815,299**	4,307,246
Due to Treasurer of the Philippines	**3,058,512**	2,315,820
Dividends payable (Note 17)	**1,789,898**	1,952,858
Withholding taxes payable	**1,955,369**	1,481,471
Income tax payable	**5,871,175**	1,195,016
Others	**42,402**	33,469
	₱99,794,083	₱82,277,515

Others include fringe benefit taxes and provision for loan commitments (see Note 4).

Breakdown of other liabilities as to liquidity is shown below.

	2022	2021
Current	**₱65,876,159**	₱55,625,109
Non-current	**33,917,924**	26,652,406
	₱99,794,083	₱82,277,515

17. **Equity**

Capital Management Objectives, Policies and Procedures
The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is regularly accounted for and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded through a sound capital position.

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

In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio" (CAR). Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula.

Effective January 1, 2014, the BSP has adopted the new risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards through BSP Circular No. 781. The adopted Basel III risk-based capital adequacy framework requires to maintain:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

On November 29, 2018, the BSP amended the requirements of Subsection X115.1 of the Manual for Regulations for Banks (MORB) through BSP Circular No. 1024. The amendment requires maintain, with respect to the CET 1 requirement, in addition to the minimum, the following capital buffers:

(a) Capital conservation buffer (CCB) of 2.5%; and
(b) Countercyclical capital buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the MB when systemic conditions warrant but not to exceed to 2.5%.

In implementing current capital requirements, BSP requires the Bank to maintain a prescribed ratio of 10% of qualifying capital to total risk-weighted assets including market risk and operational risk.

Starting March 2020, the Bank adopted Basel III risk-based capital adequacy framework in computation of its capital adequacy ratio.

The Bank's regulatory capital position as of December 31, 2022 and 2021 is presented as follows:

	2022	2021
Common Equity Tier 1 Capital	**561,641,131**	488,312,317
Tier 1 Capital	**₱561,641,131**	₱488,312,317
Tier 2 Capital	**8,415,378**	6,298,003
Total regulatory qualifying capital	**₱570,056,509**	₱494,610,320
Risk Weighted Assets		
Credit Risk Weighted Assets	**₱2,093,112,597**	₱1,942,110,005
Operational Risk Weighted Assets	**618,284,594**	614,922,842
Total risk-weighted assets	**₱2,711,397,191**	₱2,557,032,847

	2022	2021
Capital adequacy ratios (CAR):		
Common Equity Tier 1 Ratio	**20.71%**	19.10%
Tier 1 Capital Ratio	**20.71%**	19.10%
Capital Conservation Buffer	**14.71%**	13.34%
Total Capital Adequacy Ratio	**21.02%**	19.34%

The above CARs as of December 31, 2022 and 2021 are based on audited balances and are not the same with the CARs as reported to the BSP. As of December 31, 2022 and 2021, the Bank's capital adequacy ratios (CAR) are higher than the BSP minimum requirement of 10%.

Capital Allocation
The allocation of capital between specific operations and activities is, to a large extent driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degrees of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity. The process of allocation of capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank's ROC.

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.

Minimum Capital Requirement
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). The Bank is compliant with ₱400.0 million minimum capital requirement of BSP for thrift banks as of December 31, 2022 and 2021.

Capital Stock
The authorized capital stock of the Bank is ₱1.0 billion divided into 10,000,000 shares both with a par value of P100 per share.

As of December 31, 2022 and 2021, total shares issued and outstanding are 3,677,392. As at the same dates, the Bank has 156 stockholders for both years, owning 100 or more shares each of the Bank's capital stock.

Surplus Free
On April 22, 2021, the BOD approved the ₱175 million cash dividend. The cash dividends still outstanding, which amounted to ₱1.8 million and ₱2.0 million as of December 31, 2022 and 2021, respectively, is presented as Dividends payable under Other Liabilities account in the statements of financial position (see Note 16).

Surplus Reserve
Pursuant to the requirements of the BSP under Circular No. 1011 (see Note 2), the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provision, the deficiency is recognized through appropriation from the Bank's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2022 and 2021 amounted to ₱20.40 million and ₱17.17 million, respectively.

18. **Other Operating Income and Expenses**

Other Operating Income
This account consists of:

	2022	2021
Fees and commissions	**₱24,869,666**	₱17,110,367
Gain on sale of non-financial assets (Note 11 and 12)	**18,018,576**	10,217,452
Recovery from written-off accounts	**7,024,180**	4,556,068
Foreign currency exchange gains - net	**8,010**	2,487
Miscellaneous	**4,483,557**	3,787,579
	₱54,403,989	₱35,673,953

Miscellaneous income includes incidental charges from auto loans, prepayment penalty on loans and other income received.

Other Operating Expenses
This account consists of:

	2022	2021
Compensation expense (Note 19)	**₱156,485,423**	₱142,742,203
Taxes and licenses	**28,792,920**	22,409,019
Depreciation and amortization (Notes 11, 12 and 13)	**22,640,829**	21,781,202
Insurance	**10,897,260**	11,018,246
Security, clerical and messengerial	**11,364,473**	11,709,493
Information technology expense	**7,382,821**	4,695,971
Management and other professional fees	**6,367,542**	4,349,102
Postage, telephone, cables and telegrams	**5,707,054**	4,616,096
Power, light and water	**5,647,996**	4,054,860
Fees and commissions	**4,847,774**	2,676,955
Travelling	**3,872,135**	1,959,902
Rentals (Note 14)	**2,682,100**	2,156,377
Stationery and supplies	**2,376,165**	1,705,247
Repairs and maintenance	**2,169,427**	2,421,376
Litigation (Note 12)	**1,935,433**	2,407,137
Fuel and lubricants	**1,792,010**	975,785
Advertising and publicity	**94,778**	54,688
Others (Notes 11 and 19)	**13,203,940**	6,204,357
	₱288,260,080	₱247,938,016

Others include expenses related to documentary stamps, training, notarial and meals.

19. Employee Benefits

Compensation Expense
Details of this account are presented below (see Note 18).

	2022	2021
Short-term employee benefits (Note 21)	**₱147,834,843**	₱132,994,667
Post-employment defined benefit	**8,984,774**	9,747,535
	₱156,819,617	₱142,742,202

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

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by trustee banks that are legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from an independent actuary as of December 31, 2022 and 2021.

The amount of retirement benefit obligation recognized as part of Other Liabilities account in the statements of financial position are determined as follows (see Note 16):

	2022	2021
Present value of the obligation	**₱96,650,050**	₱100,225,297
Fair value of plan assets	**(99,283,000)**	(101,373,829)
Adjustment for asset ceiling test	**178,214**	56,045
Retirement asset	**(₱2,454,736)**	(₱1,092,487)

The movements in the present value of the defined benefit obligation recognized in the financial statements are as follows:

	2022	2021
Balance at beginning of year	**₱100,225,297**	₱101,313,122
Current service cost	**8,984,774**	9,747,535
Interest expense	**5,141,558**	3,930,949
Remeasurements of actuarial losses (gains) arising from:		
Changes in financial assumptions	**(10,858,020)**	(15,513,486)
Changes in demographic assumptions	**(3,245,567)**	1,189,309
Experience adjustments	**3,891,608**	2,143,226
Benefits paid	**(7,489,600)**	(2,585,358)
Balance at end of period/year	**₱96,650,050**	₱100,225,297

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

	2022	2021
Balance at beginning of year	**₱101,373,829**	₱73,895,850
Interest income	**5,258,393**	3,348,898
Loss on plan assets (excluding amounts included in net interest)	**(9,607,157)**	(702,833)
Benefits paid	**(7,489,600)**	(2,585,358)
Actual contributions	**9,747,535**	27,417,272
Balance at end of year	**₱99,283,000**	₱101,373,829

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2022	2021
Cash and cash equivalents	**₱92,949**	₱91,237
Investment in Unit Investment Trust Fund (UITF)	**53,748,417**	54,366,784
Debt instruments - Government and corporate bonds	**45,166,829**	46,720,114
Accrued interest receivable	**324,545**	308,351
	99,332,740	101,486,486
Accountabilities	**(49,740)**	(112,657)
	₱99,283,000	₱101,373,829

The fair values of the debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). The Bank's investments in UITF is classified under Level 2.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and 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	**₱8,984,774**	₱9,747,535
Net interest expense (income)	**(113,960)**	582,051
	₱8,870,814	₱10,329,586

	2022	2021
Reported in other comprehensive income:		
Actuarial gains arising from changes in:		
Financial assumptions	**(₱10,858,020)**	(₱15,513,486)
Changes in demographic assumptions	**(3,245,567)**	1,189,309
Experience adjustments	**3,891,608**	2,143,226
Return on plan assets (excluding amounts included in net interest expense)	**9,607,157**	702,833
Effects of asset ceiling	**119,294**	56,045
	(₱485,528)	(₱11,422,073)

Current service cost and net interest expense (income), including the net interest expense on asset ceiling, are presented as part of Compensation expense and Others, respectively, under Other Operating Expenses and Interest Income - Others, respectively, in the statements of income (see Note 18).

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

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2022	2021
Discount rates	**7.26%**	5.13%
Expected rate of salary increases	**7.00%**	6.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 26 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 a zero coupon government bond with terms to maturity approximating the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan assets is concentrated on investment in debt securities, investments in mutual fund and UITF. Due to the long-term nature of the plan obligation, a level of continuing debt, mutual fund and UITF investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the 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 below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2022 and December 31, 2021:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 2022			
Discount rate	**+100 bps / -100bps**	**₱(9,434,431)**	**₱8,107,075**
Salary rate	**+100 bps / -100bps**	**9,364,642**	**(8,196,457)**
December 2021			
Discount rate	+100 bps / -100bps	(₱12,125,090)	₱10,180,649
Salary rate	+100 bps / -100bps	11,893,950	(10,192,207)

The sensitivity analysis presented above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

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 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 and investments in mutual fund and UITF. The Bank believes that debt securities and investments in mutual fund and UITF 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 periods.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2022 and 2021, the plan overfunded (underfunded) by ₱2.6 million and ₱1.1 million based on the actuarial valuation report.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	2022	2021
Within one year	**₱14,997,910**	₱8,002,347
More than one year to five years	**31,737,706**	28,366,237
More than five years to ten years	**71,442,329**	47,526,252
	₱118,177,945	₱83,894,936

The weighted average duration of the defined benefit obligation at the end of the reporting periods is 9.1 years.

20. Taxes

Current and Deferred Taxes

The components of tax expense (income) reported in the statements of income and statements of comprehensive income follow:

	2022	2021
Reported in statements of income		
Current tax expense:		
Regular corporate income tax (RCIT)	**₱21,867,396**	₱3,980,150
Final tax at 20%	**5,909,641**	5,956,802
	27,777,037	9,936,952
Provision for deferred tax	**1,184,232**	10,116,129
	₱28,961,269	₱20,053,081
Reported in statements of comprehensive income		
Income tax effect on other comprehensive income items	**₱236,362**	₱4,484,806

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income is presented below.

	2022	2021
Statutory income tax	**₱28,994,558**	₱18,758,488
Adjustment on tax expense due to change in enacted rates		1,296,806
Income subjected to final tax	**(1,477,410)**	(1,490,111)
Tax effects of:		
Non-deductible expenses	**1,444,121**	1,487,898
Tax expense	**₱28,961,269**	₱20,053,081

The net deferred tax assets relate to the following as of December 31, 2022 and 2021 (see Note 13):

	2022	2021
Deferred tax asset		
Allowance for impairment losses	**₱11,001,867**	₱8,961,759
Retirement benefit obligation	**6,460,436**	7,552,343
Lease liability	**5,383,057**	6,501,502
Accumulated depreciation on investment properties	**1,429,624**	1,573,768
Accrued vacation leaves	**–**	1,279,780
Allowance for losses - other resources	**535,500**	535,500
Unrealized fair market value losses on financial assets at FVOCI – net	**–**	13,758
	24,810,484	26,418,410
Deferred tax liabilities		
Right-of-use asset	**4,735,929**	5,991,651
Gain on ROPA foreclosure	**1,350,652**	388,720
Unrealized fair market value gains on financial assets at FVOCI – net	**105,077**	–
Foreign exchange gains	**2,003**	622
	6,193,661	6,380,993
	₱18,616,823	₱20,037,417

Provision for deferred tax recognized in other comprehensive income for the years ended December 31, 2022 and 2021 amounted to ₱0.2 million and ₱4.4 million, respectively. This includes impact of change in tax rate as a result of enactment of Corporate Recovery and Tax Incentive for Enterprises Bill (see below).

Prior to enactment of CREATE Act (see below), the minimum corporate income tax (MCIT) is computed at 2% of gross income as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported for the years ended December 31, 2022 and 2021 as the RCIT was higher than MCIT during the period.

In 2022 and 2021, the Bank opted to claim itemized deductions for the computation of its income tax due.

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill
President Rodrigo Duterte signed into law on March 26, 2021 the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Bank:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023 and will revert to its original 2% rate base on gross income starting 1 July 2023. Note that the MCIT is imposed if a corporation has negative taxable income, or the MCIT is higher than the Regular Corporate Income Tax (RCIT).

21. Related Party Transactions

The Bank's related parties include subsidiaries, stockholders, key management personnel and others as described below.

The summary of the Bank's significant transactions with its related parties as of and for the years ended December 31, 2022 and 2021 are as follows:

Category	Year	Amount of transaction during the year	Outstanding balance	Terms and condition
Affiliates				
Stockholders and related parties under common ownership				
Financial asset at FVOCI	**2022**	**₱–**	**₱9,552,167**	Investment in Aboitiz Power Corporation bonds with coupon interest of 5.28%, due on October 10, 2026.
	2021	–	10,267,537	
Financial assets at amortized cost	**2022**	**–**	**50,000,000**	Investment in Aboitiz Power Corporation bonds, with coupon interest of 3.82%, due on March 16, 2026.
	2021	50,000,000	50,000,000	
Operating expenses	**2022**	**2,257,154**	**168,490**	Various services rendered by affiliates such as warehouse rental, management consultancy. Payable within 30 days, unsecured.
	2021	1,707,649	–	
Operating income	**2022**	**103,592**	–	Commission income as remittance partner with UBX
	2021	33,060	–	
Interest Income	**2022**	**2,438,770**	–	Interest income earned from Investment Securities at FVOCI and Amortized Cost
	2021	2,438,770	–	
Ultimate Parent Company				
Deposits	**2022**	**10,973,512,775**		Demand and clearing accounts with the Parent Bank
	2021	15,346,593,376		
Withdrawals	**2022**	**10,985,348,577**		
	2021	15,331,004,563		
Interest income	**2022**	**122,167**		
	2021	160,273		
Due from other bank	**2022**		**89,736,619**	
	2021		101,662,884	
Operating expenses	**2022**	**63,462**		Service charges in relation to the demand account with the Parent Bank, deducted monthly
	2021	4,062		

Outstanding balances from and payables to related parties, if any, arising from the transactions mentioned above are unsecured and generally settled in cash within 12 months or upon demand.

a. Key management personnel include all officers that have ranks of assistant vice president and up. Short-term benefits paid to key management employees amounted to ₱24.3 million and ₱21.1 million for the years ended December 31, 2022 and 2021, respectively, which are presented as part of Compensation expense under Other Operating Expenses account in the statements of income (see Notes 18 and 19).

b. *Directors, Officers, Stockholders and Related Interests*

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

The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2022 and 2021, DOSRI relates to microfinance loans that are secured with hold-out savings and back to back loans with outstanding balance amounting to ₱0.4 million and ₱0.3 million, respectively.

In 2020, the Bank transferred the conduit bank to the Ultimate Parent Company which includes clearing and cash management. Deposit used as working fund is considered DOSRI and it was secured by the Ultimate Parent Company with government securities. The Bank also has available credit line facility with the Ultimate Parent Company up to ₱170.0 million. As of December 31, 2022 and 2021, the Bank has not drawn any amount from this credit line.

c. *Remittance partnership with UBX Philippines, Inc.*

In 2020, the Bank entered into a partnership with UBX Philippines where UBX Philippines will provide remittance channel to the Bank. In 2022 and 2021, commission received by BKI amounted to ₱0.1 million and ₱0.03 million, respectively, included under other operating income.

d. *Transactions with the Retirement Plan and Trust agreement with the Ultimate Parent Company*

The composition of the retirement plan assets in the actuarial valuation reports of the Bank as of December 31, 2022 and 2021 are disclosed in Note 19. Certain amounts of the plan asset are managed by the trust fund of the Ultimate Parent Company as contained in the actuarial valuation report, with outstanding amount of ₱41.44 million and ₱35.53 million as of December 31, 2022 and 2021, respectively. The carrying amount of the fund is equivalent to its fair value.

The Bank's retirement plan have transactions directly and indirectly with the related parties as of December 31, 2022 and 2021 as follows:

Category	Year	Amount of transaction during the year	Outstanding balance
Investment in the Ultimate Parent Company's UITF	**2022**	**7,618,200**	**42,894,744**
	2021	35,526,726	35,526,726
Deposit with the Ultimate Parent Company	**2022**	**21,958,924,815**	**89,763,619**
	2021	30,677,597,940	101,662,883

22. Commitments and Contingencies

The Bank is a defendant in various cases pending in courts for alleged claims against the Bank, the outcome of which are not fully determinable at present. Also, the Bank has unutilized credit lines from various local banks.

Additionally, the Bank has extended credit lines to borrowers. Unutilized credit line availments of the borrowers to the Bank as of December 31, 2022 and 2021 amounted to ₱47.2 million and ₱90.4million, respectively. Contingent liabilities arising from these transactions are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

Undrawn loan commitments do not require provision for credit losses, as these are irrevocable commitments.

23. Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by the BSP under BSP Circular 1074.

Basic quantitative indicators of financial performance
The following are some measures of the Bank's financial performance:

	2022	2021
Return on average equity		
Net Profit / Average total equity*	**15.72%**	9.6%
Return on average resources		
Net Profit / Average total resources*	**2.49%**	1.6%
Net interest margin		
Net interest Income / Average interest earning resources*	**11.61%**	9.3%

**Average amount is calculated based on current-year end and previous year end balances*

Capital instruments issued

The capital instrument issued by the Bank comprise only of common shares (CET1). As at December 31, 2022 and 2021, the Bank has 3,677,392 common shares which are issued and outstanding amounting to ₱367,739,200,

Credit security and status of receivables from customers
The breakdown of the receivables from customers' portfolio (before allowance for credit losses) as to secured and unsecured follows:

	2022	**2021**
Secured:		
Real estate mortgage	**₱1,621,405,478**	₱1,324,233,922
Chattel mortgage	**83,504,078**	51,160,131
Deposit hold-out	**42,604,167**	35,364,992
Agricultural guarantee fund pool	**53,466,546**	35,506,197
	1,800,980,269	1,446,265,242
Unsecured	**652,176,249**	575,638,287
	₱2,453,156,518	₱2,021,903,529

The breakdown of the receivables from customers' portfolio as to status follows:

As of December 31, 2022

	Performing	Non-performing	Total loan portfolio
Gross carrying amount:			
Small and medium enterprise loans	**₱1,005,036,561**	**₱21,675,248**	**₱1,026,711,809**
Agra and other agri credit	**417,153,837**	**7,580,262**	**424,734,099**
Microenterprise loans	**266,574,404**	**23,790,063**	**290,364,467**
Loans to private corporations	**327,409,347**	**–**	**327,409,347**
Loans to individual for housing purposes	**277,204,297**	**8,925,589**	**286,129,886**
Loans to individual for consumption purposes	**94,269,093**	**525,381**	**94,794,474**
Loans to individual for other purposes	**3,012,435**	**–**	**3,012,435**
Total gross carrying amount	**2,390,659,974**	**62,496,543**	**2,453,156,517**
Allowance for ECL	**(599,352)**	**(31,513,467)**	**(32,112,819)**
Net carrying amount	**₱2,390,060,622**	**₱30,983,076**	**₱2,421,043,698**

As of December 31, 2021

	Performing	Non-performing	Total loan portfolio
Gross carrying amount:			
Small and medium enterprise loans	₱840,964,990	₱12,644,031	₱853,609,021
Agra and other agri credit	366,110,701	8,256,981	374,367,682
Microenterprise loans	222,089,208	21,707,754	243,796,963
Loans to private corporations	216,241,976	–	216,241,976
Loans to individual for housing purposes	243,119,972	6,517,918	249,637,890
Loans to individual for consumption purposes	74,252,056	5,470,473	79,722,529
Loans to individual for other purposes	4,527,469	–	4,527,469
Total gross carrying amount	1,967,306,372	54,597,157	2,021,903,529
Allowance for ECL	(1,425,677)	(25,654,944)	(27,080,621)
Net carrying amount	₱1,965,880,695	₱28,942,213	₱1,994,822,908

Significant credit exposures

The Bank's concentration of credit as to industry for its receivable for customers' portfolio follows:

	2022		2021	
	Amount	**%**	Amount	%
Real estate activities	**₱636,950,405**	**25.96**	₱481,741,279	23.83
Retail trade	**524,473,761**	**21.38**	422,987,517	20.92
Agriculture, forestry and fishing	**433,438,215**	**17.67**	382,188,111	18.90
Wholesale trade	**155,750,950**	**6.35**	166,523,252	8.24
Manufacturing	**146,041,876**	**5.95**	114,330,839	5.65
Accommodation and food service activities	**141,234,489**	**5.76**	121,510,290	6.01
Construction	**103,008,366**	**4.20**	76,550,100	3.79
Consumption loans	**94,794,474**	**3.86**	79,722,529	3.94
Transportation and storage	**85,245,938**	**3.47**	84,084,208	4.16
Human health and social work activities	**18,527,398**	**0.76**	2,612,003	0.13
Financial and insurance activities	**14,038,058**	**0.57**	6,523,892	0.32
Education	**8,670,003**	**0.35**	4,959,936	0.25
Mining and quarrying	**7,235,498**	**0.29**	3,622,898	0.18
Water supply, sewerage, waste management and remediation activities	**5,585,733**	**0.23**	3,982,589	0.20

(Forward)

	2022		2021	
	Amount	**%**	Amount	%
Information and communication	**₱3,053,031**	**0.12**	₱2,703,606	0.13
Professional, scientific and technical services	**1,286,712**	**0.05**	928,569	0.05
Administrative support services	**1,164,300**	**0.05**	1,726,370	0.09
Arts, entertainment and recreation	**886,886**	**0.04**	1,132,149	0.06
Other service activities	**71,770,424**	**2.93**	64,073,392	3.17
	₱2,453,156,517	**100.00**	₱2,021,903,529	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.

Information on Related Party Loans

As of December 31, 2022 and 2021, the Bank is in compliance with the existing BSP regulations on DOSRI. The following information relates to DOSRI loans of the Bank:

	2022	2021
Total DOSRI loans	**₱425,873**	₱268,578
Unsecured DOSRI loans	**–**	–
Interest income on DOSRI loans	**60,517**	39,243
Total DOSRI deposits	**124,774,344**	137,481,005
% of total DOSRI loans to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of past-due DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%

Secured Liabilities and Assets Pledged as Security

In 2022 and 2021, there were no assets pledged by the Bank as security for liabilities.

Contingencies and Commitments Arising from Off-balance Sheet Items

The summary of the Bank's commitments and contingent accounts is shown below.

	2022	2021
Committed credit lines	**₱47,200,000**	₱90,420,000
Guarantee issued	**237,900**	52,000
Items held for safekeeping	**6,017**	3,385
Items held for collateral	**1,481**	1,348
	₱47,445,398	₱90,476,733

24. Supplementary Information Required Under Revenue Regulations 15-2010

Presented below is the supplementary information required by the Bureau of Internal Revenue (BIR) under RR 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Gross Receipts Tax

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

The Bank reported total GRT amounting to ₱20,494,753 in 2022 as shown under Taxes and Licenses under other operating expenses. Total GRT payable as of December 31, 2022 amounted to ₱5.8 million and is included under Other liabilities account in the 2022 statement of financial position.

Documentary Stamp Tax
In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments, security documents, certificates of deposits and bills of exchange.

For the year ended December 31, 2022, DST affixed amounted to ₱16,026,987 representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which ₱10,551,717 were charged to the Bank's clients; hence, not reported as part of Taxes and licenses.

Taxes and Licenses
Details of taxes and licenses presented under Other Operating Expenses account in the 2022 statement of income follow:

GRT	₱20,494,753
DST	5,475,270
Business permits and other licenses	2,106,483
Fringe benefits tax	141,708
Real property tax	405,441
Vehicle Registration	169,265
	₱28,792,920

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

Compensation and employee benefits	₱8,482,719
Final	330,398
Expanded	2,029,595
	₱10,842,712

Deficiency Tax Assessments and Tax Cases
As of December 31, 2022, the Bank has no other final deficiency tax assessment from BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
The Board of Directors and the Stockholders
Bangko Kabayan, Inc.
(A Private Development Bank)
Santiago Street
Poblacion, Ibaan, Batangas

We have audited the accompanying financial statements of Bangko Kabayan, Inc. (the Bank) as at December 31, 2022 and for the year then ended, on which we have rendered the attached report dated April 18, 2023.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has 156 stockholders owning one hundred (100) or more shares each of the Bank's capital stock.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
Tax Identification No. 193-975-241
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 92305-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-062-2020, December 3, 2020, valid until December 2, 2023
PTR No. 9369768, January 3, 2023, Makati City

April 18, 2023

PRIVATE
DEVELOPMENT BANK

HEAD OFFICE: Santiago Street, Poblacion, Ibaan, Batangas
TEL. NO.: (043) 311-1420 / (043) 311-1323
WEBSITE: www.bangkokabayan.com
EMAIL ADDRESS: info@bangkokabayan.com

/BangkoKabayan

PRIVATE DEVELOPMENT BANK

Hindi Basta Bangko, Kabayan pa!