



AUDITED FINANCIAL STATEMENT 2022



SAYSON-PADUA & ASSOCIATES

Certified Public Accountants

Audit • Accounting • Tax • Consultancy

Accreditations: Securities & Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP),
Board of Accountancy (BOA) & Bureau of Internal Revenue (BIR)

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

San Antonio St., Poblacion Norte,
Paracale, Camarines Norte

AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Report of Independent Auditors
SAYSON-PADUA & ASSOCIATES, CPAs



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Accreditations: Securities & Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP),
Board of Accountancy (BOA) & Bureau of Internal Revenue (BIR)

To the Board of Directors and Stockholders of
Rural Bank of Paracale (Camarines Norte), Inc.
San Antonio St., Poblacion Norte,
Paracale, Camarines Norte

Gentlemen:

We have audited the financial statements of **Rural Bank of Paracale (Camarines Norte), Inc.** for the year ended December 31, 2022, on which we have rendered the attached report dated March 3, 2023.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Bank/Company has a total number of one hundred thirty-seven (137) stockholders owning one hundred (100) or more shares each.

SAYSON-PADUA AND ASSOCIATES, CPAs

TIN 005-716-970

BOA/ PRC No. 0511 valid until February 14, 2026

SEC A.N. 0511-SEC (Group C) valid until AFS 2024

BSP A.N. 0511-BSP (Group C) valid until AFS 2024

RANDY M. PADUA

Partner

CPA Certificate No. 90506

BOA/ PRC No. 0511 valid until February 14, 2026

P.T.R. No. 0144832, January 05, 2023, Legazpi City, Albay

BIR Acc. No. 10-002027-001-2022 valid until February 03, 2025

SEC A.N. 90506-SEC (Group C) valid until AFS 2024

BSP A.N. 90506-BSP (Group C) valid until AFS 2024

TIN NO. 170-086-473

March 3, 2023

Legazpi City




APR 14 2023

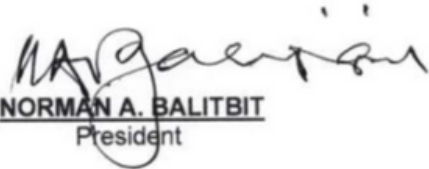
**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

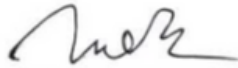
The Management of **RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the calendar year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the management is responsible for all information and representation contained in all other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the calendar year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** complete and correct in all material respects. Management likewise affirms that:

- a. the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, the pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- b. any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards of the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- c. the **RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


ADELINA T. ESPERAS
Treasurer


NORMAN A. BALITBIT
President


ERROL R. PARCERO
Chairman



**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of **RURAL BANK OF PARACALE, (CAMARINES NORTE), INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

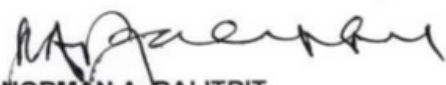
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

Sayson-Padua and Associates, CPAs, the independent auditors, appointed by the stockholders has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:


ADELINA T. ESPERAS
Treasurer


NORMAN A. BALITBIT
President

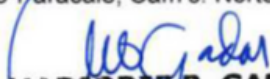

ERROL R. PARCERO
Chairman

SUBSCRIBED AND SWORN to before me in 13 MAR 2023 this ___ day of
2023, affiants exhibited to me their Community Tax Certificates Nos:

Name	Comm. Tax Cert. No.	Date/Place of Issue
ADELINA T. ESPERAS	28699893	01/07/2023-Paracale, Cam's. Norte
NORMAN A. BALITBIT	28700653	01/11/2023-Paracale, Cam's. Norte
ERROL R. PARCERO	TIN 146706089	

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Page No. 3
Book No. XXVII
Series of 2023.

BUREAU OF
INTERNAL REVENUE
RECEIVED
APR 14 2023
DATE
RDO NAME: WILMARR M. ATIA
RDO CODE: 005166


ATTY. MARJORIE B. GADOR
NOTARY PUBLIC
UNTIL DECEMBER 31, 2023
NOTARIAL COMMISSION NO. 2022-0027
PTR NO. 7343255 (1-4-2023)
IBP LIFETIME NO. 018007
ROLL NO. 53321 (4-27-07)
MCLE COMPLIANCE NO. VII-0000587
LABO, CAMARINES NORTE



SAYSON-PADUA & ASSOCIATES

Certified Public Accountants

Audit • Accounting • Tax • Consultancy

Accreditations: Securities & Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP),
Board of Accountancy (BOA) & Bureau of Internal Revenue (BIR)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Rural Bank of Paracale (Camarines Norte), Inc.
San Antonio St., Poblacion Norte
Paracale, Camarines Norte

Opinion

We have audited the financial statements of **Rural Bank of Paracale (Camarines Norte), Inc.**, which comprise the statements of financial position as of December 31, 2022 and 2021, and the statements of comprehensive income, changes in capital funds and 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 (PFRSs).

Basis for Opinion

We conducted our audit 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, the Code of Ethics for *Professional Accountants in the Philippines*, and we have fulfilled our ethical responsibilities in accordance with these requirements. 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 these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

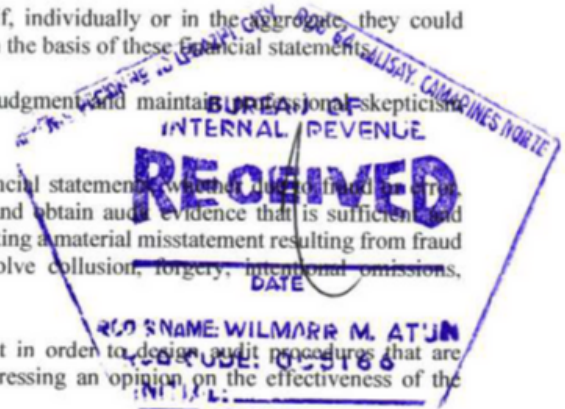
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a skeptical mindset 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 Company's internal control.





Independent Auditor's Report
 To the Board of Directors and Stockholders of
Rural Bank of Paracale (Camarines Norte), Inc.

- 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 evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.

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 Bureau of Internal Revenue Requirement

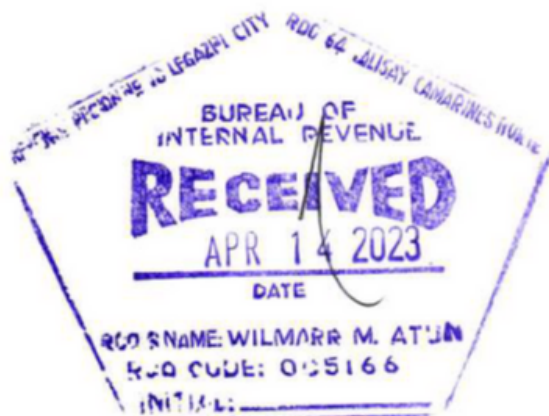
Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information of taxes and licenses in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required as part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SAYSON-PADUA AND ASSOCIATES, CPAs
 TIN 005-716-970
 BOA/ PRC No. 0511 valid until February 14, 2026
 SEC A.N. 0511-SEC (Group C) valid until AFS 2024
 BSP A.N. 0511-BSP (Group C) valid until AFS 2024

Randy M. Padua
RANDY M. PADUA
 Partner

CPA Certificate No. 90506
 BOA/ PRC No. 0511 valid until February 14, 2026
 P.T.R. No. 0144832, January 05, 2023, Legazpi City, Albay
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 TIN NO. 170-086-473

March 3, 2023
 Legazpi City



APR 14 2023

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

San Antonio St., Poblacion Norte, Paracale, Camarines Norte

STATEMENT OF FINANCIAL CONDITION

For the year ended December 31, 2022

With Comparative Figures from 2021

ASSETS		2022	2021
Cash and Other Cash Items	2, 5	P 12,761,274	P 13,290,585
Due from Bangko Sentral ng Pilipinas	6	10,339,931	10,516,943
Due from other Banks	7	78,890,282	117,262,439
Investment Securities at Amortized Cost, net	8	33,141,912	33,092,656
Loans and Receivables, net	2, 9	343,345,801	295,122,284
Sales Contract Receivable, net	10	5,646,746	2,081,433
Bank Premises, Furniture and Equipment, net	2, 11	20,276,265	18,484,225
Held-for-Sale Assets	2, 12	19,078,683	17,390,555
Deferred Tax Assets	29	11,860,494	11,789,265
Other Assets, net	13	6,315,571	3,535,684
		541,656,958	522,566,069
LIABILITIES AND EQUITY			
Deposit Liabilities	14	367,431,536	343,102,774
Accrued Expenses and Other Liabilities	15	75,274,297	86,392,038
Retirement Liability	16	12,337,817	11,340,541
		455,043,650	440,835,353
Share Capital	17	50,000,000	50,000,000
Surplus	17	36,613,308	31,730,716
		86,613,308	81,730,716
		P 541,656,958	P 522,566,069
BOOK VALUE PER SHARE	17	173.23	163.46

(See accompanying Notes to Financial Statements)



APR 14 2023

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

San Antonio St., Poblacion Norte, Paracale, Camarines Norte

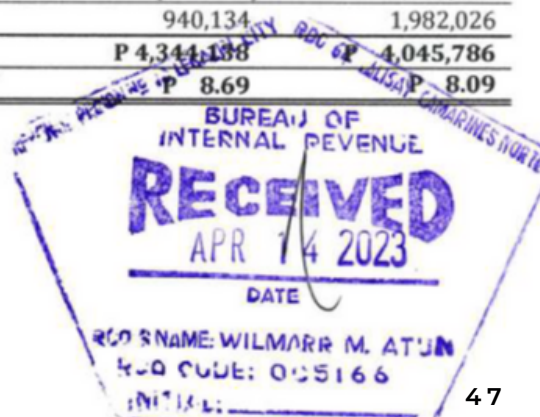
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2022

With Comparative Figures from 2021

	Note	2022	2021
INTEREST INCOME			
Interest - Loans & Receivables		P 53,876,032	P 54,196,482
Interest - Investment		717,117	775,717
Interest - Deposit with Banks		68,026	104,215
Interest - Sales Contract Receivable		154,933	353,043
Total Interest Income	19	54,816,108	55,429,457
INTEREST EXPENSE			
Interest on Deposit Liabilities		6,169,797	5,695,534
Total Interest Expense	20	6,169,797	5,695,534
NET INTEREST INCOME BEFORE PROVISIONS		48,646,311	49,733,923
Provision for Probable Losses		284,914	2,251,217
NET INTEREST INCOME AFTER PROVISIONS		48,361,396	47,482,706
NON-INTEREST INCOME			
Fees and Commissions Income		788,707	469,439
Other Income		4,125,035	2,993,665
Recovery on Charged-off Assets		34,627	80,426
Gains/(Losses) from Sale/Derecognition of Non-Financial Assets		4,455,740	2,945,047
Total Non-Interest Income	21	9,404,109	6,488,577
OTHER EXPENSES			
Compensation and Fringe Benefits	22	30,209,078	27,913,024
Taxes and Licenses	23	4,123,516	3,645,513
Fees and Commission Expenses	24	389,610	476,578
Depreciation and Amortization	25	2,722,454	2,391,244
Other Operating Expenses	26	15,036,576	13,517,113
Total Non-Interest Expense		52,481,234	47,943,471
INCOME (LOSS) BEFORE INCOME TAX		5,284,272	6,027,811
Less: Provision for Income Tax			
Current	29	1,413,462	804,603
Deferred		(473,328)	1,177,423
		940,134	1,982,026
NET INCOME AFTER INCOME TAX		P 4,344,138	P 4,045,786
EARNINGS PER SHARE	27	P 8.69	P 8.09

(See accompanying Notes to Financial Statements)



RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

San Antonio St., Poblacion Norte, Paracale, Camarines Norte

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

With Comparative Figures from 2021

	Note	Capital	Surplus Free	Total
Balance at January 1, 2021		P 50,000,000	P 29,529,364	P 79,529,364
Net Income for the year		-	4,045,786	4,045,786
Adjustments		-	(1,844,434)	(1,844,434)
Balance at December 31, 2021	17	50,000,000	31,730,716	81,730,716
Net Income (Loss) for the year		-	4,344,138	4,344,138
Adjustments	17	-	538,453	538,453
Balance at December 31, 2022	17	P 50,000,000	P 36,613,308	P 86,613,308

(See accompanying Notes to Financial Statements)

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

San Antonio St., Poblacion Norte, Paracale, Camarines Norte

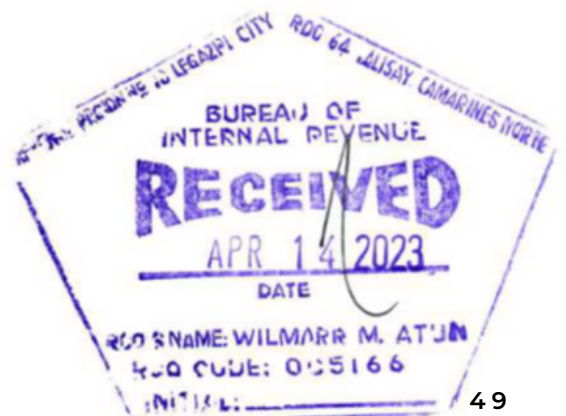
CASHFLOW STATEMENT

For the year ended December 31, 2022

With Comparative Figures from 2021

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) Before Income Tax Payment		P 5,284,272	P 6,027,811
Add: Depreciation	11	2,028,718	1,982,897
Adjustments on Depreciation	11	(2,249)	(4,979)
Provisions for income tax	11	(940,134)	(1,982,026)
Operating income before changes in working capital		6,370,607	6,023,704
(Increase) Decrease in operating assets:			
Loans and Receivable - Net	9	(48,223,517)	(23,838,589)
Sales Contract Receivable - Net	10	(3,565,313)	1,618,022
Deferred Tax Assets	29	(71,229)	1,982,026
Other assets	13	(2,779,887)	43,275,961
Increase (decrease) in operating liabilities:			
Deposit Liabilities	14	24,328,762	11,136,393
Accrued Expenses and Other Liabilities	15	(11,117,741)	(16,520,544)
Retirement Liability	16	997,276	731,063
Cash generated/ (used) for operation		(34,061,040)	24,408,036
Income Taxes Paid		-	-
Net cash provided (used in) by operating activities		(34,061,040)	24,408,036
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions (sale) of bank premises, property and equipment	11	(3,818,508)	(2,084,396)
Decrease (increase) in the amounts of:			
Held-to-Maturity (HTM) Financial Assets, net	8	(49,256)	92,345
Held-for-Sale Assets	12	(1,688,128)	(3,229,424)
Net cash provided (used in) by investing activities		(5,555,892)	(5,221,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cumulative Earnings, Net Adjustment		538,453	(1,844,434)
Net cash provided (used in) by financing activities		538,453	(1,844,433)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(39,078,479)	17,342,128
CASH AND CASH EQUIVALENTS, January 1	5,6,7	141,069,967	123,727,839
CASH AND CASH EQUIVALENTS, DECEMBER 31	5,6,7	P 101,991,487	P 141,069,967

(See accompanying Notes to Financial Statements)



NOTES TO FINANCIAL STATEMENTS

December 31, 2022

With Comparative Figures from 2021

NOTE 1 – CORPORATE INFORMATION

RURAL BANK OF PARACALE (CAMARINES NORTE), INC. (the “Bank”) is a rural bank incorporated in the Philippines on March 16, 1978 with Securities and Exchange Commission (SEC) Registration No. 78752. The Bank is into the business of banking authorized under Republic Act (RA) 7573, otherwise known as Rural Banks Act of 1992 and RA 720 as amended, Rural Banks’ Act (1952) and other allied laws, including but not limited to carry on and engage in the business extending rural credit to small farmers and tenants, and to deserving rural industries or enterprise. Its principal place of business and Head Office is located at San Antonio Street, Poblacion Norte, Paracale, Camarines Norte. It has two (2) branches located in Labo and Daet, all in Camarines Norte and three (3) Branchlite Office in Tagkawayan, Jose Panganiban and Calauag, Quezon. As of December 31, 2022, the bank has eighty-nine (89) employees.

The Bank’s financial statements as of and for the year ended December 31, 2022 were authorized for issuance by the Board of Directors on March 3, 2023.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Financial Statements Preparation

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC (shall be considered as “Compliance Framework”). Under AASC Alert No. 001, Series of 2021, Auditor’s Practice Guidance on SEC Memorandum Circular No. 32, Series of 2020, the Bank have the option to prepare the annual financial statements using the said industry specific framework or full PFRS for the duration and terms allowed by the BSP. The Circular provides that “The PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, shall form part of the applicable financial reporting framework for the purpose of preparing and filing general purpose financial statements with the Commission pursuant to paragraph 2 of the Revised SRC Rule 68. The reliefs cover only current year transactions/events and do not impact the comparative periods.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with PFRS requires the management of the Bank to make estimates and assumptions that affect the reported amount of Assets, liabilities, income and expenses and disclosures of contingent liabilities and Assets when necessary qualifications have been met. Future events may occur which will cause the assumptions used in arriving the estimates to change. The effect of any change in estimates are reflected in the financial statements as they become reasonably determined.

The Bank presents its balance sheet broadly in order of liquidity, with a distinction based on the expectations regarding the recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current) presented in the notes.

Financial assets and financial liabilities are offset only when there is a legally enforceable right to do so or to offset the recognized amounts and there is an intention to settle on a net basis, or to value the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by any accounting standards or interpretation, as specifically disclosed in the accounting policies of the Bank.

Statement of Compliance

The accompanying financial statements of the Bank have all been prepared in accordance with Philippine Financial Reporting Standards.

Changes in Accounting Policies

The Bank has reviewed and adopted the following standards during the twelve months period ended December 31, 2022. Adoption of these revised standards did not have any effect on the financial statements of the Bank. They did, however, result to additional disclosures which are included in the accompanying financial statements.

- Amendment to PAS 1, Amendment on Statement of Comprehensive Income. In accordance with the Amendments to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owners changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendments to PAS 1 provide for the introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the statements of income together with other comprehensive income. The revision specify what is included in other comprehensive income, such as gains and losses on AFS investments, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or present two linked statements, a separate statement of income and a statement of comprehensive income.

- Amendment to PAS 1. Presentation of Financial Statements, introduces disclosures about the level of capital and how the Bank manages the capital.
- PAS 23, Borrowing Costs. The Standards has been revised to require capitalization of borrowing costs when such costs relate to the qualifying assets. A qualifying asset is an asset that is necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, this change in accounting for borrowing costs shall be accounted for prospectively.

Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have not been expensed, since all borrowing cost presented in this financial statement were not pertaining to qualifying assets.

PAS 32, Financial Instrument: Presentation and PAS 1, Presentation of Financial Statements-Putable Financial Instruments and Obligations Arising on Liquidation (Effective for annual periods beginning on or after January 1, 2009) The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

PFRS 1, First-time Adoption of PFRS – Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate. The Amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investment in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

PFRS 2, Share-based Payment-Vesting Conditional Cancellations. The Standards has been revised to clarify the definition of a vesting conditional and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, Operation Segments – This PFRS adopts a management approach to reporting segment information. PFRS 8, has replaced PAS 14, Segment Reporting, and is now required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. This standard does not affect the Bank's financial statements.

Philippine Interpretation IFRIC 13, Customer Loyalty Programmers. This Interpretation addresses the accounting by an entity that grants credits to its customers. The Bank will apply paragraph 13 of PAS 18,

Revenue, and account for award credits as a separately identifiable component of the sales transaction in which they are granted.

Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a foreign Operation. This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge of net investment; where within the Bank the hedging instrument can be held in the hedge or a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment. Currently, the Bank has no hedges of a net investment in a foreign operation.

Revised PFRS 3, Business Combination and PAS 27, Consolidated and Separate Financial Statements. The revised PFRS 3 introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and reported results.

PAS 32, Financial Instrument: Presentation and PAS 1, Presentation of Financial Statements-Putable Financial Instruments and Obligations Arising on Liquidation (Effective for annual periods beginning on or after January 1, 2009) The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

Amendment to PAS 39, Financial Instruments: Recognition and Measurement – Eligible hedged items Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedge risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of financial instrument as hedged item.

Philippine Interpretation IFRIC 17, Distribution of Non-Cash Assets to Owners – This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owner. The two types of distribution are:

- a. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in IFRS 3, ownership interest in another entity or disposal groups as defined in IFRS 5): and,
- b. distribution that gives owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

Philippine Interpretation IFRIC 18, Transfers of Assets from Customers. This interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive from a customer. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both. This interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to supply of goods or services, or to do both.

Philippine Interpretation IFRIC 15 Agreement of Construction of Real Estate. This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

PAS 24, Related Party Transactions (Amendment)

PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PFRS 7, Financial Instruments: Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

Effective in 2016

- PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets- Clarification of Acceptable Methods of Depreciation and Amortization (Amendment)
- PAS 27, Separate Financial Statement- Equity Method in Separate Financial Statements (Amendment)
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations-Changes in Methods of Disposal (Amendment)
- PFRS 7, Financial Instruments: Disclosures- Servicing Contracts
- PAS 19, Employee Benefits- Regional Market Issue Regarding Discount Rate
- PAS 34, Interim Financial Reporting- Disclosure of Information Elsewhere in the Interim Financial Report (Amendment)

Effective in 2017

- PAS 7, Statement of Cashflows: Disclosure Initiatives (Amendment)
- PAS 12, Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (Amendment)

Effective in 2018

- PFRS 9, Financial Instruments: Classification and Measurement – Introduction of a new impairment model – the Expected Credit Loss (ECL) Model (Amendment)
- PAS 40, Investment Property: Transfer of Investment Property (Amendment)

Effective in 2019

- PFRS 16, Leases

Effective in 2020

- Amendments to PFRS 16, COVID-19 related Rent Concessions
- AASC Alert No. 001, Series of 2021, Auditor’s Practice Guidance on SEC Memorandum Circular No. 32, Series of 2020. – On November 17, 2020, the Securities and Exchange Commission (SEC) issued SEC Memorandum Circular No. 32, Series of 2020 (referred to herein as “the Circular”) that provides the adoption of an industry specific framework for Bangko Sentral ng Pilipinas (BSP)-regulated financial institutions (BSFIs), to be referred to as the Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC. Accordingly, BSFIs have the option to prepare their annual financial statements using the said industry specific framework or full PFRS for the duration and terms allowed by the BSP. The Circular provides that “The PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, shall form part of the applicable financial reporting framework for the purpose of preparing and filing general purpose financial statements with the Commission pursuant to paragraph 2 of the Revised SRC Rule 68.”

Effective in 2023

- PFRS 17, Insurance Contracts – Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objectives of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entities financial position, financial performance and cash flows.

Accounting Policies

Cash and Cash Equivalents

Cash included cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of change in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial instrument in the statements of condition when, and only when, it becomes a party to the contractual provisions of the instrument.

Measurement Methods – Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Financial Assets and Financial Liabilities

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

The Bank classifies its financial assets in the following measurement categories: at amortized cost, at fair value through profit and loss, and fair value through other comprehensive income.

- Amortized cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (“SPPI”), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included as interest income using the effective interest method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, loan and advances, and other financial receivables.
- Fair value through other comprehensive income (FVOCI). Financial assets that are held for collection of contractual cash flows and for selling these assets, where the assets’ cash flows represent solely payment of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortized cost which are recognized in the statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in interest income using the effective interest method.
- Fair value through profit or loss. Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within trading gain on securities in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

Debt Instruments

The Bank's financial assets include Debt instruments. Debt instruments are those instruments that meet the definition of financial liability from the issuer's perspective, such as loans and receivables, due from BSP and other banks, government and corporate bonds and other financial receivables.

Loans and receivables

These are basic loans and receivables where the objective of the Bank's business is the collection of contractual cash flows (Business Model) and said cash flows represents solely payments of principal and interest (SPPI Test). These loans and receivables are classified and measured under amortized cost under the Bank's Business Model and SPPI Test. Factors considered by the Bank in determining the business model for the loans and receivables include past experience and business practices on how these were approved, managed, monitored, and collected including risks involved.

Classification and Measurement of Financial Assets

Classification and measurement

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount).

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stresscase' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

Investment Securities 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; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are 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 impairment in value.

As of December 31, 2022, the Bank's investment securities at amortized cost are presented in the statement of financial position as 'Due from BSP', 'Due from other banks', 'Investment securities at amortized cost', 'Loans and receivables', and certain accounts under 'Other assets'.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial Assets at FVTPL

Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL.

Equity investments 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. The Bank's financial assets at FVTPL shall include any government securities, corporate bonds and equity securities which are held for trading purposes.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL and gains or losses arising from disposals of these instruments are included in 'Trading and securities gains - net' account in the statements of income.

Interest recognized based on the modified effective interest rate of these investments is reported in statements of income under 'Interest income' account while dividend income is reported in statements of income under 'Miscellaneous income' account when the right of payment has been established.

Financial Assets at FVOCI - Equity Investments

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.

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 and accumulated in 'Net unrealized gains (losses) on financial assets at FVOCI' in the statements of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net unrealized fair value gains (losses) on financial assets at FVOCI account is not reclassified to profit or loss, but is reclassified directly to Surplus free account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous Income' account.

Financial Assets at FVOCI - Debt Investments

The Bank applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

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.

Impairment of Financial Assets

The Bank record the allowance for expected credit losses for all loans and receivables and other debt financial assets not held at FVTPL, all referred to as 'financial instruments'. Equity instruments are not subject to impairment under PFRS 9.

Incurring loss versus expected credit loss methodology

The impairment requirements under PAS 39 (incurred loss model) are significantly different from those under PFRS 9 (expected loss model). Under the incurred loss model, loan and investment assets are regarded as impaired if there is no longer reasonable assurance that the future cash flows related to them will be either collected in their entirety or when due. Under the expected loss methodology, impairment is more forward looking, in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

Staging assessment

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The criteria for determining whether an account should be assessed under Stage 1 are as follows: (i) past due up to 30 days except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days; (ii) accounts tagged as 'Current' are tagged as Stage 1 accounts; (iii) no significant increase in the probability of default. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. A SICR is generally deemed present in accounts with: (i) more than 30 days up to 90 days past due, except for microfinance loans; (ii) loan especially mentioned or substandard; or (iii) with significant increase in PD. For the consumer loans, stage 2 criteria (i), (ii), and (iii) are considered; The Bank recognizes a lifetime ECL for Stage 2 financial instruments. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Bank recognizes a lifetime ECL for Stage 3 financial instruments.

Definition of "default" and "restored"

The Bank classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. 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 (i.e., restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Credit risk at initial recognition

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

For accounts originated before the transition date, an approximation of the initial PD at origination was utilized. Average PD per portfolio was used as approximated initial PD at origination. Average of the Point-in-Time PDs was used since most of the accounts were booked in the same year.

Significant increase in credit risk

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria 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 require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. 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. Due dates are determined without considering any grace period that might be available to the borrower. 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.

ECL parameters and methodologies

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank applied the general approach for its receivable from customer. The Bank used sophisticated method on its large-scale and medium-scale businesses and motorcycle loans. While simplified models using vintage loss rate approach was used for the remaining portfolios (i.e., home, auto, personal loans (secured and unsecured), microfinance and small-scale business).

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets are measured at amortized cost is recognized in OCI as an

accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

Write-offs

The Bank's accounting policy for write-offs remains the same. The Bank has also not written off corporate outstanding loans and receivables that are still subject to enforcement activity as of December 31, 2022.

Sales Contract Receivables

Sales Contract Receivables arising from derecognition or installment of sale of non-financial asset are accounted for by recognizing outright gain and deferred gain, recognized upon execution of contract computed as the difference between the booked or capitalized ROPA and present value of Sales Contract Receivables. Deferred gain or discount arising from this transaction is subsequently amortized to income using effective interest method based on imputed rate. Deferred gain which is computed as the difference between present value of receivables and Gross Sales Contract Receivables.

Bank Premises, Furniture, Fixtures and Equipment

Bank premises (these include buildings and leasehold rights and improvements), furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and impairment loss, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Leasehold rights and improvements are amortized over the shorter of the estimated useful lives of assets in years of the terms of related leases whichever is shorter.

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciations are consistent with the expected pattern of future economic benefits from items of bank premises, furniture, fixtures and equipment.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after an item of bank premises, furniture, fixtures and equipment has been put into operation such as repairs and maintenance are normally charged to and included in the determination of income in the period in which the disbursements relate.

When the bank premises, furniture, fixtures and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as income or loss in the statements of income.

The Bank uses the straight-line method of amortization on its bank premises and depreciated over 15 to 30 years estimated useful life but subject to review based on current conditions. Furniture and fixtures, IT equipment were depreciated over 3-5 years in average but then again subject to periodic review and evaluation as to estimated useful life or/and impairments.

An item of property and equipment is derecognized upon disposal or when future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of income in the year the asset is derecognized.

Impairment of Non-financial Assets

The carrying values of the Bank's non-financial assets are reviewed for impairments when events or change in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling

price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income.

Real and Other Properties Acquired (ROPA)

Real and other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment were booked initially at the carrying amount of loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for probable losses computed based on PAS 39 provisioning requirements) plus booked accrued interest less allowance for probable losses plus transaction cost incurred upon acquisition such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real property. Provided that if the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value should be set-up, and those ROPA that exceed P5 million should be appraised by the independent appraiser acceptable to the BSP. Holding costs subsequent to foreclosures or acquisition should be charged to operations as incurred.

Allowance for probable losses is set up based on BSP provisioning requirements and for any anticipated significant shortfalls from the recorded values. Shortfall is determined based on appraisal reports and current negotiations and programs.

The ROPA items subject to depreciation is separated from the non-depreciable asset acquired. The depreciation is recognized based on estimated useful life of depreciable asset acquired but not to exceed ten years in relation with the BSP circular.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest Income and Service Fees

Interest income and service charges arising from granting of loans are deferred and recognized in financial statement as income using effective interest method.

The effective interest method is a method of calculating the amortized cost of financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is a rate that exactly discounts estimated future cash payments or cash receipts through the expected life of financial instrument or, when appropriate, a shorter period to net carrying amount of financial asset or financial liability.

Interest on interest-bearing placements and securities is recognized as the interest accrues, taking into account the effective yield on the asset.

Commission and Other Income

Commission and other income earned from short term loans are recognized as revenue over the period of the loan using the effective interest method or outright method if the loan does not exceed one month. The portion of the commissions that related to the unexpired periods of the loan if any, at the balance sheet date is accounted for as deferred income and presented in the liabilities section of the balance sheet. Other Income and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Dividend Income

Dividend income is recognized when the shareholders' right to receive the payment is established.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Lease of assets under which the lessor effectively retains all risks and rewards of ownership is classified as operating lease. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax and liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in stockholders' equity is recognized in stockholders' equity and not in the statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized only when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of Assets embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of Assets embodying economic benefits is remote. Contingent assets are not recognized in the notes to the financial statements but are disclosed when an inflow of economic benefits is probable.

Events after the Balance Sheet Date

Post year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements when material.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of

contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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.

Judgments

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

Estimates

The key assumptions concerning the future and other key sources of estimation of uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Credit losses on loans and receivables (prior to adoption of PFRS 9)

The Bank reviews its loans and receivables at each statement of financial position date to assess whether a credit loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors such as condition of the counterparty, observable market prices and estimated net selling prices of the collaterals. The use of assumptions could produce significantly different estimates of provision for credit losses.

The carrying values of and allowance for credit losses on loans and receivables of the Bank as of December 31, 2022 and 2021 are disclosed in Note 9.

Estimation of Useful Lives of Property and Equipment

The Bank reviews annually the estimated useful lives of property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expense and decrease the related asset accounts.

Impairment of Property and Equipment

The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the bank considers importance which could trigger the impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends

Recognition of Deferred Income Tax Assets

The Bank reviews the carrying amounts of the deferred income tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Bank believes that it will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

NOTE 4 – BANK'S MANAGEMENT OF FINANCIAL RISK

Financial Risk

The Bank is exposed to financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from the financial assets are not sufficient to settle the obligation arising from its deposit liabilities. The most important components of this financial risk are credit risk, liquidity risk, interest rate risk and market risk.

Credit Risk

Credit risk arises from counterparty's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or

borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio.

In compliance with BSP requirements, the bank has developed an internal credit risk rating system aimed at uniformly assessing its credit portfolio in terms of risk profile. The system is now in place and has been implemented through the grading of new and existing corporate loan borrowers. As part of this strategy, over the past years, the bank has invested in new technology, such as more advanced information systems, to establish a database of client and credit information. The bank believes that more sophisticated risk management and credit control systems will play an important role in its plan to enhance the quality of its asset base.

Loans and receivables

The credit risk on loans and receivables are the possibility of non-payment or the probability of default by the counterparty. This probability is being evaluated by the management using BSP standard classifications as follow:

- **Unclassified loans** – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of classified loans as classified below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
- **Loans especially mentioned** – these are loans and advances that have potential weaknesses that deserve management’s close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.
- **Substandard** – these are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the Bank unless given closer supervision. Loans under this category must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.
- **Doubtful** – these are loans or portions thereof which have the weaknesses inherent in those classified as “Substandard”, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- **Loss** – these are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

	2022	In %	2021	In %
Unclassified	P 346,662,518	91.05	P 289,240,095	87.09
Doubtful	6,990,817	1.84	15,593,715	4.69
Loss	27,103,410	7.11	27,270,505	8.22
	P 380,756,745	100.00	P 332,104,315	100.00

Allowance for impairment amounted to P 37,410,944 and P 36,982,031 for the year 2022 and 2021 which are about 9.82% and 11.13% of total loans, respectively.

Market Risk

Market risk is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets. However, the bank is not materially dealing on this kind of transaction but nevertheless the board acknowledges the potential risk.

Interest Rate Risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Changes in the market will have no significant effect because loans are non-quoted in the market. With respect to investment in bills, the maturity period is one (1) year or less and changes in the market will have no significant effect to the bank.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk management process

The management monitors its liquidity by:

- Daily monitoring of liquidity level
- Maintaining highly liquid securities/bills
- Maintaining proper reserve requirement as required by BSP

Operational Risk

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes on the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's client may be ambiguous or untested. This risk exposes the bank to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduces expansion potential, and lack of contract enforceability.

Strategic Risk

Strategic risk is the current and prospective risk to earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the Assets deployed against these goals, and the quality of implementation. The Assets needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

Reputation Risk

Reputation risk is the current and prospective risk to earnings or capital arising from negative public opinion. This affects the bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the bank to litigation, financial loss, or a decline in its customer base. In extreme cases, banks that lose their reputation may suffer a run on deposits. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

Fair value of financial assets and liabilities

The table below summarizes the carrying amount and/or fair value of those significant assets and liabilities:

Financial Resources	2022	2021
Cash and Other Cash Items	P 12,761,274	P 13,290,585
Due from BSP	10,339,931	10,516,943
Due from Other Banks	78,890,282	117,262,439
Investment Securities at Amortized Cost, net	33,141,912	33,092,656
Loans and Receivables, net	343,345,801	295,122,284
Sales Contract Receivable, net	5,646,746	2,081,433
Held-for-sale Assets	19,078,683	17,390,555
Other Assets, net	6,315,571	3,535,684
	P 509,520,200	P 492,292,579
Financial Liabilities		
Deposit Liabilities	367,431,536	343,102,774
Accrued Expenses and Other Liabilities	75,274,297	86,392,038
Retirement Liability	12,337,817	11,340,541
	P 445,043,650	P 440,835,353

Maturity Profile of Assets and Liabilities

	2022		
	Due Within One Year	Due Beyond One Year	Total
Financial Resources			
Cash and other cash items	P 12,761,274	-	P 12,761,274
Due from BSP	10,339,931	-	10,339,931
Due from other banks	78,890,282	-	78,890,282
Loans, gross	121,477,951	259,278,794	380,756,745
Other Resources	6,315,571	-	6,315,571
Allowance for impairment	37,410,944	-	37,410,944
	P 267,195,953	259,278,794	526,474,747
Financial Liabilities			
Deposit liabilities	P 344,259,197	23,172,339	P 367,431,536
Accrued expenses and Other liabilities	75,274,297	-	75,274,297
	P 419,533,494	P 23,172,339	P 422,705,833
	2021		
	Due Within One Year	Due Beyond One Year	Total
Financial Resources			
Cash and other cash items	P 13,290,585	-	P 13,290,585
Due from BSP	10,516,943	-	10,516,943
Due from other banks	117,262,439	-	117,262,439
Loans, gross	152,952,465	179,151,850	332,104,315
Other Resources	3,535,684	-	3,535,684
Allowance for impairment	36,982,031	-	36,982,031
	P 334,540,147	179,151,850	513,691,997
Financial Liabilities			
Deposit liabilities	P 322,628,949	20,473,825	P 343,102,774
Accrued expenses and Other liabilities	86,392,038	-	86,392,038
	P 409,020,987	20,473,825	P 429,494,812

NOTE 5 – CASH AND OTHER CASH ITEMS

For purposes of reporting cash flow, Cash and other cash items include cash on hand and checks and other cash items including those checks still in the possession of the Bank awaiting deposits.

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For the years ended December 31, 2022 and 2021, the account consists of the following:

	2022	2021
Cash on Hand	P 12,617,044	P 13,283,059
Check Other Cash Items (COICs)	144,230	7,526
Totals	P 12,761,274	P 13,290,585

NOTE 6 – DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP)

This is composed of local currency deposits maintained in the Bangko Sentral ng Pilipinas (BSP) to meet legal reserve requirements on deposit liabilities.

	2022	2021
Reserve Deposit	P 10,339,931	P 10,516,943

In accordance with BSP Circular 1092 Series of 2020, the Bank is required to maintain regular reserves against savings and time deposits at 2% of the outstanding balance thereof. The Bank has satisfactorily complied with the reserve requirements of the BSP as of December 31, 2022 and 2021.

NOTE 7 – DUE FROM OTHER BANKS

	December 31, 2022			
	Commercial	Government	Thrift/Rural	Total
Savings Deposits	P 17,895,870	P 14,211,184	P 2,761,998	P 34,869,052
Demands Deposits	5,500,859	38,520,371	-	44,021,230
Total	P 23,396,729	P 52,731,555	P 2,761,998	P 78,890,282

	December 31, 2021			
	Commercial	Government	Thrift/Rural	Total
Savings Deposits	-	P 64,714,939	P 12,386,541	P 77,101,480
Demands Deposits	1,002,901	39,158,058	-	40,160,959
Total	P 1,002,901	P 103,872,997	P 12,386,541	P 117,262,439

Cash in banks earns interest at the respective bank deposit rates. Short term deposits are placed for varying periods of up to three months depending on the bank's liquidity requirements, and earn at respective short-term deposit rates.

NOTE 8 – INVESTMENT SECURITIES AT AMORTIZED COST – NET

This account (previously classified as held-to-maturity assets) consists of the following:

	2022	2021
LBP – Treasury Bonds (Retail Bonds)	P 20,000,000	P 20,000,000
Producer Savings Bank – Agri Agra	10,372,930	9,257,544
LBP 10-year Bonds–Agri-Agra Alternative	2,768,982	3,822,800
Land Bank of the Phils. (LBP) 10-year Bonds	-	12,312
	P 33,141,912	P 33,092,656

Amounts with Producers Savings Bank refer to special time deposits as an alternative compliance with the mandatory agrarian/agricultural reform credit.

Interest rate (%) during the years ranges from 1.25% - 3.5% and 1.25% to 3.5% as of December 31, 2022 and 2021, respectively.

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Maturity terms of investment securities at amortized cost at December 31 follow:

	2022	2021
Within a year	P 10,372,930	P 9,269,856
More than a year	22,768,982	23,822,800
Total	P 33,141,912	P 33,092,656

NOTE 9 – LOANS AND RECEIVABLES – net

Details of this account consists of the following:

	2022		2021	
	Amount	%	Amount	%
Current	P 324,471,849	85.22	P 289,240,095	87.09
Past Due	56,284,896	14.78	42,864,220	12.91
Items in Litigation	-	0.00	-	0.00
	380,756,745	100.00	332,104,315	100.00
Allowance for impairment loss	37,410,944		36,982,031	
	P 343,345,801		P 295,122,284	

	2022		2021	
	Amount	%	Amount	%
Total Past Due Non-Performing Loan	P 52,014,587	92.41	P 35,982,144	83.74
Total Past-Due Performing Loan	4,270,309	7.59	6,882,076	16.26
Total Past Due Loans	P 56,284,896	100.00	P 42,864,220	100.00

BSP Circular 941 on Amendments to Regulations on Past Due and Non-Performing Loans provides that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Average interest rates (%) of loans and receivables as of December 31, 2022 and 2021 are as follows:

	2022	2021
Daily	32%	32%
Weekly	39%	39%
Monthly	25%	25%
Lumpsum	18%	17%
Quarterly	23%	23%
Semi-annual	16%	0%

The Bank has no outstanding loans and advances used as security to Bills Payable as of December 31, 2022 and 2021, respectively.

Loans and receivables include amounts due from related parties. (Note 30).

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Loans and receivables are expected to be realized as follows:

	2022		2021	
		%		%
Current (within 12 months)	P 121,477,951	32	P 152,952,465	87.09
Non-current (over 12 months)	259,278,794	68	179,151,850	0.00
	P 380,756,745	100.00	P 332,104,315	100.00

In the ordinary course of business, the Bank may enter into loan and other transactions with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk. Under current banking regulations, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. As at December 31, 2022, the Bank has no DOSRI loan transactions, and in 2021, the Bank is in compliance with the regulatory requirements.

In the ordinary course of business, the Bank has loan transactions with its directors, officers, stockholders and related interest (DOSRI). Details of the Bank's DOSRI loans at December 31 were as follows:

	2022	2021
Total Outstanding DOSRI loans	P 0.00	P 619,889
% to DOSRI accounts to total loans	0.00%	0.18%
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	0.00%	0.00%
Past due DOSRI loans	0.00%	0.00%
Non-performing DOSRI loans	0.00%	0.00%

Also, the balance of fringe benefit loans to employees amounted to P 0.00 and P 3,335,799 as of December 31, 2022 and 2021, respectively.

The changes in the allowance for impairment losses at December 31 are as follows:

	2022	2021
Balance, January 1	P 36,982,031	P 34,920,971
Provisions	239,414	2,061,060
Adjustments	189,499	-
Balance, December 31	P 37,410,944	P 36,982,031

General and Specific Loan Loss Provision and allowance were computed in accordance with BSP Circular No. 855. The total loan portfolio is reviewed monthly by the bank to ensure that adequate reserves are consistently set up and maintained at a level sufficient to absorb losses. General and Specific loan loss provision are booked on a monthly basis and is adjusted accordingly if there is an additional allowance required by the BSP.

The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loan loss reserves, as follows (per BSP Circular 855).

Classification	Percentage of Loss
Loans Especially Mentioned	2%
Substandard- Secured Loans	10%
Substandard- Unsecured	25%
Doubtful	50%
Loss	100%

The allowance for credit loans losses is established through provision for credit losses charge to current operation. Loans are written-off against the allowance for credit losses when management believes that the collection of the principal is unlikely.

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In compliance with BSP Circular No. 855, the Provision and Allowance for losses, and Impairment Losses as computed above, were determined as follows:

Provision and Allowance for Losses:

		2022		2021
Specially Mentioned	2-5%	P 236,162	2-5%	P 392,034
Substandard Secured	10-15%	1,401,384	10-15%	630,536
Substandard Unsecured	25%	178,715	25%	513,589
Doubtful	50%	3,508,486	50%	449,271
Loss	100%	27,115,671	100%	27,270,505
Required Specific Loan Loss Provision (SLLP)		32,440,419		29,255,935
Required General Loan Loss Provision (GLLP)		2,784,458		2,196,560
		35,224,877		31,452,495
Booked Valuation Reserves		37,410,944		36,982,031
Excess (Deficit)		P 2,186,067		P 5,529,536

GLLP is 1% of total unclassified loans.

The Bank adopted the expected loss methodology (ECL) required by PFRS 9. The Bank has already adopted the loan loss methodology that PFRS 9 requires by following the *Appendix 100 of Manual of Regulation for Banks [GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS 9 (PFRS 9) FINANCIAL INSTRUMENTS – IMPAIRMENT (Appendix to Section 172)]* that states:

“Section 10. Application to simple BSFIs

BSFIs with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses. *On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the Appendix 15.”*

In relation thereto, the Bank computes for the provisioning according to *Appendix 15 of Manual of Regulations for Banks [BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES (Appendix to Section 143 on Credit Classification and Provisioning)]*.

As of December 31, 2022, and 2021, the Bank has an excess of P 2,186,067 and P 5,529,536 in the required allowance for credit losses, respectively. The Bank did not avail of the staggered booking of allowance for credit losses.

NOTE 10 – SALES CONTRACT RECEIVABLE

This refers to the amortized cost of assets acquired in settlement of loans through foreclose or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

	2022	2021
Sales Contract Receivable	P 6,277,254	P 2,470,061
Less: Unamortized Discounts and other Deferred Credits	585,008	126,827
Allowance for Credit Losses	45,500	261,801
Sales Contract Receivable -Net	P 5,646,746	P 2,081,433

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NOTE 11 – BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – NET

Bank Premises, Furniture and Fixtures, and Equipment are depreciated over their useful life using straight line method of depreciation.

	<u>Estimated Useful Life in Years</u>
Bank Premises-Building	25-50
IT Equipment	1-3
Furniture and Fixtures	3-5
Transportation Equipment	5-10
Leasehold Improvement	5*

* Leasehold Improvement depreciation is accounted and recognized based on remaining term of the lease or estimated useful life of asset whichever is lower.

Bank Premises, Furniture, Fixtures and Equipment account consist of the following items:

2022	Land	Building and Leasehold Improvements	Furniture, IT And Other Equipment	Transportation Equipment	Total
Cost					
January 1	P 8,093,813	P 17,283,263	P 22,105,118	P 3,289,317	P 50,771,511
Additions	256,174	2,057,909	1,392,656	111,768	3,818,508
December 31	8,349,987	19,341,173	23,497,774	3,401,085	54,590,019
Accumulated depreciation					
January 1	-	9,502,563	19,495,416	3,289,306	32,287,285
Depreciation	-	740,726	1,269,364	18,629	2,028,718
Adjustments	-	1,914	(4,164)	-	(2,250)
December 31	-	10,245,203	20,760,616	3,307,935	34,313,753
Net book value	P 8,349,987	P 9,095,970	P 2,737,159	P 93,150	P 20,276,265

2021	Land	Building and Leasehold Improvements	Furniture, IT And Other Equipment	Transportation Equipment	Total
Cost					
January 1	P 8,093,813	P 16,345,522	P 20,958,463	P 3,289,317	P 48,687,115
Additions	-	937,741	1,146,655	-	2,084,396
December 31	8,093,813	17,283,263	22,105,118	3,289,317	50,771,511
Accumulated depreciation					
January 1	-	8,858,327	18,184,604	3,266,437	30,309,368
Depreciation	-	644,236	1314,408	24,253	1,982,897
Adjustments	-	-	(3,596)	(1,383)	(4,979)
December 31	-	9,502,563	19,495,416	3,289,307	32,287,286
Net book value	P 8,093,813	P 7,780,700	P 2,609,702	P 10	P 18,484,225

Computation Fixed Asset Over Capital Funds Ratio

As of December 31, 2022	=	$\frac{\text{Fixed Asset Ending Balance}}{\text{Total Ending Capital accounts}}$	=	$\frac{\text{P 20,276,265}}{86,613,308}$	=	23.41%
As of December 31, 2021	=	$\frac{\text{Fixed Asset Ending Balance}}{\text{Total Ending Capital accounts}}$	=	$\frac{\text{P 18,484,225}}{81,730,715}$	=	22.61%

NOTE 12 – HELD-FOR-SALE ASSETS

Included in this account at December 31 were the following:

	2022	2021
Land	P 13,473,317	P 13,188,587
Building	9,485,939	7,574,512
Others	39,583	39,583
Real and other property owned or acquired	22,998,839	20,802,682
Allowance for impairment loss	(42,439)	(42,439)
Accumulated Depreciation	(3,877,717)	(3,369,688)
	P 19,078,683	P 17,390,555

Assets held for sale represent real and other properties acquired (ROPA) other than those used for banking purposes acquired by the Bank in settlement of loans and which are intended for sale later by the Bank, usually on installment basis. The properties acquired in settlement of loans are taken up at their recorded balances of the total bank's claim a of foreclosure date (unpaid face amount less any recorded allowance for loan losses, if any).

The movement in Assets-Held-for-Sale is summarized as follows:

	2022	2021
At January 1	P 17,390,555	P 14,161,131
Additions	1,911,427	4,795,818
Adjustments	470,436	259,324
Depreciation	(693,735)	(433,072)
Disposals	-	(1,392,647)
	P 19,078,683	P 17,390,555

NOTE 13 – OTHER ASSETS – NET

This account consists of the following items:

	2022	2021
ACPC Fund	P 264,731	P 850,958
Accounts Receivable – Net	3,887,993	1,461,459
Accrued Interest Income – Net	152,956	153,781
Stationery & Supplies on Hand	627,944	484,686
Prepaid Expenses	362,167	264,106
Deferred Charges	109,084	60,000
Petty Cash Fund	45,000	45,000
Miscellaneous Assets	865,695	215,694
	P 6,315,571	P 3,535,684

The ACPC Fund amounting to P 264,731 and P 850,958 as of December 31, 2022 and 2021, respectively is a fund maintained in connection with the Program for Unified Lending in Agriculture (PUNLA). PUNLA is a program funded by the Agricultural Credit Policy Council (ACPC), a government agency attached to the Department of Agriculture (please refer to Note 16). The Bank is required by ACPC to deposit and maintain the ACPC Fund to a separate bank account in a government bank. Any withdrawals must have prior written authority from the ACPC based on master list of eligible borrowers submitted by the Bank.

Accounts Receivable – Net consists of ATM withdrawal, 4P's payout, transfer of title of foreclosed property and other receivables. Accrued Interest Income are service fees from 4P's. Prepaid expenses include rent and insurance expenses. Miscellaneous assets are composed of G-cash balances and other miscellaneous assets. These are all non-interest bearing and are to be collected for a period of less than one (1) year.

NOTE 14 –DEPOSIT LIABILITIES

This liability account includes the following items:

	2022	2021
Savings Deposit	P 367,431,536	P 343,102,774
Time Certificate of Deposits	-	-
	P 367,431,536	P 343,102,774

Interest rates per annum provided to deposits are as follows:

	2022	2021
Savings	0.50%	0.50%
Time / Special Savings	1.75% - 5.75%	1.75% - 5.75%

Interest on regular savings deposits are computed based on the average daily balance and posted to individual accounts on a quarterly basis while Interest on time deposits are computed and recognized upon maturity of the deposits, except on cases where depositor requests for a monthly payment of interest.

The maturity profile of the Bank's deposit liabilities are as follows:

	2022	2021
Within one year	P 344,259,197	P 322,628,949
Beyond one year	23,172,338	20,473,825
	P 367,431,536	P 343,102,774

Under existing BSP regulations, deposit liabilities are subject to liquidity reserve equivalent to 2% for savings and time deposits per BSP Circular No. 1092, Series of 2020.

Currently, the Bank's reserves are maintained in the form of Due from BSP. As of December 31, 2022, and 2021, the Bank's deposit liabilities are adequately covered by reserves as required by the BSP.

NOTE 15 – ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of the following items:

	2022	2021
ACPC Payable	P 59,376,949	P 74,800,427
Accounts Payable –Net	5,641,936	2,809,214
Deposit for Stock Subscription	3,125,000	3,125,000
Income Tax Payable	1,324,267	755,367
Accrued Interest Payable – Deposits	1,666,983	1,349,696
Other Taxes and Licenses Payable	1,517,986	942,586
Withholding Taxes Payable	843,463	794,316
SSS, PHIC, HDMF Payable	417,361	371,560
Dividend Payable	26,990	26,990
Due to Treasurer of the Philippines	7,740	7,740
Accrued Other Expenses	1,325,622	1,409,142
	P 75,274,297	P 86,392,038

The ACPC payable refers to the fund granted to the Bank by the Agricultural Credit Policy Council (ACPC) - a government agency attached to the Department of Agriculture in connection with the Program for Unified Lending in Agriculture (PUNLA) amounting to P 74,800,427 as of December 31, 2021. PUNLA Program is a special credit facility designed to address the financial needs of small farmers and fisherfolk (SFF) and /or their respective cooperatives/associations for fast, convenient and affordable credit. PUNLA is 100% financed or funded by ACPC.

The Bank participated in the PUNLA program through Memorandum of Agreement (MOA) entered into with the ACPC on November 21, 2019. Under the said MOA, the Bank will act as a "Lending Conduit" of PUNLA. The MOA provides for, among others, the following:

- Any amount of the approved credit fund shall be utilized for any or all PUNLA facilities, to wit: (a) Production Loan Easy Access (PLEA); (b) Working Capital Loan Easy Access (CLEA); and (c) Farm Machineries and Equipment Loan Program (FMELP). Other loan facilities may be added subject to the approval of ACPC.
- Any amount approved and released to the Bank is subject to the terms and conditions as specified in the Notice of Credit Fund Approval;
- Interest income on loans which consists of finance charges prescribed by the Implementing Guidelines and specified in the Notice of Credit Fund Approval shall accrue in favor of the Bank. Such income may be used by the Bank to cover costs of social preparation, training and operating expenses incurred in administering the Program;
- The Lending Policies and Procedures to be agreed upon by the parties shall be consistent with the Implementing Guidelines;
- The beneficiaries of the Credit Fund (ACPC Fund) are the marginal small farmers, fisherfolk and micro, small and medium scale enterprises engaged in agriculture and fisheries;
- The Bank, acting as Credit Program Manager, shall assume full liability of the principal amount of the ACPC Fund until such funds have been remitted to ACPC or upon acceptance of a Deed of Subrogation executed by ACPC;
- In case of non-payment of loans by eligible borrowers, the Bank may execute a Deed of Subrogation covering the subject loan receivables;
- The acceptance of the Deed of Subrogation shall extinguish the liability of the Bank over the principal amount of credit funds provided that there is absence of fraud on the part of the Bank and/or loans are not applied to ineligible accounts;
- There is fraud in cases of material misrepresentation, fraudulent or deceitful means or devices used by the Bank or by anyone acting on its behalf (e.g., loans to inexistent borrowers). On the other hand, ineligible accounts are as follows: (a) loans charged against the ACPC Fund are found by the ACPC to be restructured loans; (b) loans were disbursed to ineligible borrowers such as those who do not fall under the definition of eligible borrowers; (c) loans were disbursed for purposes other than those indicated in the implementing guidelines;
- Any ACPC funds released by the ACPC shall be deposited and maintained by the Bank to a separate bank account in a government bank. Such deposit account as well as the loan receivables out of ACPC fund shall be covered by a Deed of Assignment in favor of ACPC. Any withdrawals must have prior written authority from the ACPC based on master list of eligible borrowers submitted by the Bank; and
- The Bank shall collect all loan principal and interest from borrowers under the program and remit all monthly principal collections to ACPC within five (5) days of the following month. Failure to remit the principal collections within the said period shall warrant a penalty of 12% per annum.

Accounts Payable includes deposit for redemption of acquired assets which are non-interest bearing and are to be settled for a period of less than one (1) year.

Accrued Interest Payable – Deposits pertains to interests payable on time deposits and savings deposits.

Accrued Other Expenses includes accrual for external audit fee, ATM subscription and various expenses which are to be settled for a period of less than one (1) year.

Other taxes and licenses payable are composed of accrual of gross receipts tax (percentage tax).

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Income tax payable refers to corporate income tax payable by the bank to the Bureau of Internal Revenue (BIR).

Deposit for stock subscription refers to deposit for common stock subscription of the Bank's plan to increase its capitalization from Fifty Million Pesos (P50,000,000) to One Hundred Million Pesos (P100,000,000) per Stockholders' Resolution No. 2021-04 dated March 13, 2021.

NOTE 16 – RETIREMENT LIABILITY

	2022	2021
Provision for Retirement and Pensions	P 12,337,817	P 11,340,541

Post-employment Benefits

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employees retirement benefit under the collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

Also, under PAS 19 – Employee Benefits, an entity is required to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

The Bank has no formal retirement plan but provides retirement benefits equal to one-half (1/2) of monthly salary for every year of service of each employee, with at least five (5) years of service. Benefits will be paid in lump sum upon retirement or separation in accordance with the terms of the Plan. An employee shall have at least five (5) years of continuous service with the bank. The benefits are charged to operations when paid or incurred. Retirement Liability as of December 31, 2022 and 2021 amounted to P 12,337,817 and P 11,340,541, respectively. Also, the Company provides statutory benefits like Social Security System (SSS), Home Development Mutual Fund (HDMF or Pag-ibig), Philippine Health Insurance Corporation (Philhealth) and the 13th month pay. The benefits are charged to operations when paid or incurred.

No actuarial valuation was made in the set up of retirement liability. However, based on the management's computation based on existing Labor laws, the amount of liability accrued for the retirement as at December 31, 2022 and 2021 were reasonable.

NOTE 17 – SHARE CAPITAL

	2022		2021	
	SHARES	AMOUNT	SHARES	AMOUNT
Authorized Shares				
Common Stock @ P 100.00 par	500,000	P 50,000,000	500,000	P 50,000,000
Paid Up Common Shares				
Beginning	500,000	50,000,000	500,000	50,000,000
Stock dividend	-	-	-	-
Collection during the year	-	-	-	-
Total	500,000	P 50,000,000	500,000	P 50,000,000

(a) Capital Management Objectives, Policies and Procedures

The Bank's policy is to maintain a strong capital base as 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 also recognized and the Bank recognize the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

(b) Unimpaired Capital

Under current banking regulations, the qualifying capital accounts of the bank should not be less than an amount equal to ten percent of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

- Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations to DOSRI;
- Deferred tax assets;
- Goodwill, if any;
- Sinking fund for redemption of redeemable preferred shares; and
- Other regulatory deductions.

Risk assets consist of designated market risk and total risk-weighted assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters or credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

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

- a. Tier 1 Capital includes the following:
 - i. Paid-up common stock
 - ii. Surplus
 - iii. Surplus reserves
 - iv. Undivided profits (for domestic banks only)

Subject to deduction for:

- i. Outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and
- ii. Deferred income tax

- b. Tier 2 Capital Includes:
 - i. Perpetual and cumulative preferred stock,
 - ii. Net unrealized gains on underwritten listed equity securities purchased, and
 - iii. General loan loss provision.

As of December 31, 2022, and 2021, the Bank's capital adequacy ratios are 13.25% and 15.04% which are higher than the BSP minimum requirement of 10% on the ratio of capital accounts against the risk weighted assets.

(c) Minimum Capital Requirement

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

The Monetary Board, under Circular No. 854 series of 2014, approved the new capitalization of the banks. The Subsection X111.1 of the Manual Regulation for Banks (MORB) on minimum capitalization of Rural Banks requires head office in all others areas outside National Capital Region (All Cities up to 3rd class municipalities) to have a P 20 million capital for Head Office only and P 30 million for up to 10 branches.

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Banks which are existing shall be allowed five (5) years from effectivity of this circular within which to meet the above minimum capital requirements.

On August 24, 2022, BSP issued Circular No. 1151 Series of 2022, in which it amends the Minimum Capitalization of Banks. The required minimum capitalization of Rural Banks shall be P50M for Head Office and Up to 5 branches, the term branch shall exclude the branch-lite units of banks, P120M for 6 to 10 branches, and P200M for banks with more than 10 branches. The bank has complied with the new capitalization of Rural Banks.

The Capital position of the Bank as reported to the BSP as of December 31, 2022 and 2021 are as follows:

(Amounts in P0.000 million)

	2022	2021
Common Equity Tier 1 (CET1) Capital	74.75	83.71
Tier 1 capital	74.75	83.71
Total Qualifying capital	77.54	86.08
Total Risk-Weighted Assets	585.17	561.23
Capital Adequacy Ratio (CAR)	13.25	15.04

As of December 31, 2022, and 2021, the Bank has One Hundred Thirty-Seven (137) stockholders owning 100 or more shares each of the Bank's capital stock, respectively.

Surplus

Surplus account is comprised of Free and Reserves. Surplus Free consist of accumulated earnings and owner changes, free and available for appropriation (e.g., Dividend declaration and distribution).

As of December 31, 2022 adjustment to surplus includes application of prepaid tax to 2021 tax due of which P804,603 for Provision for Income Tax-Current and P1,692,688 for Provision for Income Tax-Deferred and other adjustments; and, as of December 31, 2021 adjustment to surplus includes payment to AMLC of Assessment under Admin Case No. 20-008 amounting to P1,050,000, net reversal of SCR due to termination of old contract amounting to P 341,855.27 and other adjustments.

Surplus Free

As of December 31, 2022, and 2021, Surplus Free amounted to P 36,613,308 and P 31,730,716, respectively.

Disclosure on the Book Value per Share in Peso

As of December 31, 2022	=	$\frac{\text{Total Capital Accounts}}{\text{Total Share Common Outstanding}}$	$\frac{\text{P 86,613,308}}{500,000}$	=	<u>173.23</u>
As of December 31, 2021	=	$\frac{\text{Total Capital Accounts}}{\text{Total Share Common Outstanding}}$	$\frac{\text{P 81,730,715}}{500,000}$	=	<u>163.46</u>

NOTE 18 – LIQUIDITY RATIO

Computation of Liquidity Ratio

As of December 31, 2022	=	$\frac{\text{Total Liquid Assets}^*}{\text{Total Deposit Liabilities}}$	$\frac{\text{P 101,991,487}}{367,431,536}$	=	<u>27.76%</u>
As of December 31, 2021	=	$\frac{\text{Total Liquid Assets}^*}{\text{Total Deposit Liabilities}}$	$\frac{\text{P 141,069,967}}{343,102,774}$	=	<u>41.12%</u>

* Liquid Assets include Cash and Other Cash Items, Due From Other Bank including Due from BSP.

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As of December 31, 2022, and 2021, the Bank has a minimum liquidity ratio of 34.751% and 48.172%, respectively.

NOTE 19 – INTEREST INCOME

	2022	2021
Loans and Receivables	P 53,876,032	P 54,196,482
Investments	717,117	775,717
Deposit with Banks	68,026	104,215
Interest – Others	154,933	353,043
	P 54,816,108	P 55,429,457

Interest – Others refers to interest on Sales Contract Receivable

NOTE 20 – INTEREST EXPENSES

	2022	2021
Interest Expense on Deposits	P 6,169,797	P 5,695,534
Investment Expense on Bills Payable	-	-
	P 6,169,797	P 5,695,534

NOTE 21 – NON-INTEREST INCOME

	2022	2021
Fees and Commissions Income	P 788,707	P 469,439
Other Income	4,125,035	2,993,665
Recovery on Charged-Off Assets	34,627	80,426
Gains/Losses from Sale/Derecognition of Non-Financial Assets	4,455,740	2,945,047
	P 9,404,109	P 6,488,577

As of December 31, 2022, Other Income refers to penalties on non-payment of loans amounting to P4,067,635.

NOTE 22 – COMPENSATION AND FRINGE BENEFITS

	2022	2021
Salaries and Wages	P 11,249,329	P 10,548,485
Fringe Benefits		
(a) Directors	-	-
(b) Officers and Employees	12,529,156	11,157,490
Director's Fee	3,225,000	3,240,000
SSS, Philhealth, Pag-IBIG Fund Contributions	2,029,382	1,778,334
Medical, Dental and Hospitalization	146,204	90,082
Provision for Pensions and Other Post Retirements Benefits Expense	1,030,007	1,098,633
	P 30,209,078	P 27,913,024

NOTE 23 – TAXES AND LICENSES

Taxes and licenses represent payments of registration fees, local taxes, real property taxes, gross receipt taxes, documentary stamp taxes and other taxes.

Amount paid for year 2022 and 2021, amounted to P 4,123,516 and P 3,645,513, respectively.

NOTE 24 – FEES AND COMMISSION EXPENSE

Fees and Commission Expenses amounted to P 389,610 and P 476,578 for the year ended December 31, 2022 and 2021, respectively.

NOTE 25 – DEPRECIATION AND AMORTIZATION

	2022	2021
Depreciation – IT Equipment	P 791,387	P 888,023
Depreciation – Bank Premises – Buildings	693,667	581,412
Depreciation – ROPA	693,735	408,346
Depreciation – Transportation Equipment	18,629	24,254
Depreciation – Other Office Equipment	396,648	331,146
Depreciation – Furniture and Fixtures	81,329	95,239
Depreciation – Leasehold Rights and Improvements	47,059	62,824
	P 2,722,454	P 2,391,244

NOTE 26 – OTHER OPERATING EXPENSES

	2022	2021
Insurance Expenses	P 1,566,412	P 1,632,418
Power, Light and Water	1,257,481	902,591
Information Technology Expenses	1,256,921	1,518,010
Security, Clerical, Messengerial and Janitorial Services	1,484,951	1,251,036
Bad Debts Written Off	1,467,595	-
Travelling Expenses	1,459,106	1,251,136
Postage, Telephone, Cables and Telegrams	880,032	904,366
Management and Other Professional Fees	645,475	938,130
Stationery and Supplies Used	575,284	599,656
Representation and Entertainment	500,824	469,113
Rent	408,397	394,950
Repairs and Maintenance	386,264	630,055
Fuel and Lubricants	341,428	192,856
Litigation Expenses	234,969	1,067,096
Donations and Charitable Contributions	173,013	117,132
Supervision Fees	91,754	-
Membership Fees and Dues	39,560	-
Advertising and Publicity	12,000	36,000
Periodicals and Magazines	7,655	6,810
Fines, Penalties and Other Charges	-	1,950
Other Expenses	2,247,455	1,603,808
	P 15,036,576	P 13,517,113

Bad Debts Written Off as of December 31, 2022 amounting to P1,467,595 were approved under Board Resolution Nos. 2022-151 and 2022-199, Series of 2022.

Other Expenses consists of meals during meetings and overtimes, groceries and snacks of employees, expenses during stockholders' meetings and various activities of the bank.

NOTE 27– EARNINGS PER SHARE

As of December 31, 2022	=	$\frac{\text{Earnings Available to Common}}{\text{Total Common Shares Outstanding}}$	P 4,344,138	8.69
			500,000	
As of December 31, 2021	=	$\frac{\text{Earnings Available to Common}}{\text{Total Common Shares Outstanding}}$	P 4,045,786	8.09
			500,000	

NOTE 28 – PROVISION FOR INCOME TAX

The Bank provides provision for income tax on quarterly basis and the amount computed is immediately paid to Bureau of Internal Revenue. Income is rated at 30% based upon the implementation of RA 9337 effective November 01, 2005.

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Revenue Regulations No. 10-2002 defines expenses to be classified as EAR expenses and sets a limit for the amount that should only be deducted for the preparation of income tax return. Limitation which is 1% of Bank's net revenue is observed.

The Bank's gross income includes income from government securities, savings and time deposits with various banks which were either tax exempt or subjected to final withholding tax. These are, accordingly, not included in the Bank's gross income for income tax purposes.

Note 29- DEFERRED TAX ASSET / INCOME TAXES

The significant components of deferred income tax assets as December 31, 2022 and 2021 are as follows:

	2022	2021
Allowance for impairment	P 11,860,494	P 10,991,556
Net Operating Loss Carry-Over (NOLCO)	-	-
Minimum Corporate Income Tax (MCIT)	-	797,709
Prepaid Income Tax	-	-
	P 11,860,494	P 11,789,265

The minimum corporate income tax (MCIT) consists of the following:

Year MCIT Incurred	Year of Expiry	2022	2021
2019	2022	P -	P 264,591
2020	2023	-	533,118
		P -	P 797,709

Under Section 27(A) of the Tax Code, any excess of the MCIT over the normal income tax as computed shall be carried forward on an annual basis and credited against the normal income tax for the three (3) immediately succeeding taxable years. The excess MCIT cannot be claimed as a credit against the MCIT itself or against any other losses. Any amount of the excess MCIT which has not or cannot be so credited against the normal income tax due for the 3-year preliminary period shall lose its credibility.

The Bank's deferred tax asset also relate to 25% and 30% tax effect of temporary differences arising from provisions for impairment losses in 2021 and 2020, respectively.

Under Section 34(D)(3) of the Philippine Tax Code, the net operating loss of the business or enterprise for any taxable year immediately preceding the current taxable year, which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss provided, among others, that a net operating loss carry over shall be allowed only if there has been no substantial change in the ownership of the business or enterprise in that (a) not less than 75% in nominal value of outstanding issued shares, if the business is in the name of a corporation, is held by or on behalf of the same person, or (b) not less than 75% of the paid up capital of the corporation, if the business is in the name of a corporation, is held by or on behalf of the same persons.

The details of the Bank's Allowance for impairment loss at December 31 were as follows:

	Loans and Receivables	Deferred Tax
Beginning Balance, December 31, 2021 (2020-30% and 2021-25% income tax rate)	P 36,982,031	P 10,991,556
Additional Provision (25% income tax rate)	239,414	59,854
Writeoff/adjustments	189,499	47,375
Estimated deferred tax asset, December 31, 2022		P 11,860,494

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Prepaid Income Tax

	2022	2021
Beginning Balance	-	P 245,285
Minimum Corporate Income Tax	-	-
Applied Current Year	-	(245,285)
	-	-

The reconciliation between the provision for income tax at the statutory tax rate and the actual provision for income tax at December 31 follows:

	2022	2021
Pretax income of statutory tax rate of 25%	P 1,321,068	P 1,506,953
Effect of items not subject to statutory tax rate:		
Interest income subject to final tax of 20%	(196,286)	(219,983)
Retirement Expense	(121,019)	-
Provision for impairment loss	71,229	562,804
Interest expense limitation	80,968	90,743
Other non-taxable income/non-deductible expense	257,502	274,658
NOLCO	-	(1,410,573)
	P 1,413,462	P 804,603

NOTE 30 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the one party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to a common control or common significant influence. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

The following are significant transactions with related parties.

	2022	2021
DOSRI and Key Management Personnel Deposits		
Total Deposits During the Year	P 5,896,471	P 5,878,857
Interest Rate	.50% - 4.25%	.25% - 4.25%
DOSRI and Key Management Personnel Loans and Receivables		
DOSRI Loans	P 0.00	P 619,889
Fringe Benefit Loan	3,486,386	3,335,799
Interest Rate	6%	6%
Transactions with Stockholder		
Rental Expense during the year	None	None
Compensation of Key Management Personnel		
Salaries and Wages	P 11,249,329	P 10,548,485
Fringe Benefits – Directors	-	-
Fringe Benefits – Officers	12,529,156	11,157,490
Directors' Fees	3,225,000	3,240,000
SSS, Philhealth & HDMF Contributions	2,029,382	1,778,334
Medicare, Dental & Hospitalization	146,204	90,082
Provision for Pensions & Other Post-Retirement Benefits	1,030,007	1,098,633
	P 30,209,078	P 27,913,024

Terms and Conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. Deposit of related parties includes special savings deposits with a term of one year. A loan of related parties pertains to loan under fringe benefit program with a term of 6 months up to 10 years. The Bank has not made any provision

for credit losses relating to the loans and receivables of related parties since the accounts are fully secured and are in current status.

NOTE 31 – LEASE

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied).

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. The depreciation would usually be on a straight-line basis. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with IAS 7.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The initial lease asset equals the lease liability in most cases.

The lease asset is the right to use the underlying asset and is presented in the statement of financial position either as part of property, plant and equipment or as its own line item.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 replaces IAS 17 effective 1 January 2019, with earlier application permitted. IFRS 16 has the following transition provisions:

- Existing finance leases: continue to be treated as finance leases.
- Existing operating leases: option for full or limited retrospective restatement to reflect the requirements of IFRS 16.

The Bank is leasing properties for its operations for the Jose Panganiban Branchlite and Caluag Branchlite. The lease contract is for a period of one year subject to renewal upon the agreement of both parties. As of December 31, 2022, 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 asset 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 transition, for lease previously accounted for as operating leases with a remaining lease term of less than twelve (12) months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On May 28, 2020, the International Accounting Standards Board (IASB) issued IFRS 16 (Amendments) amending IFRS 16 to help lessees account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment adds a practical expedient to IFRS 16 which provides relief for lessees in assessing whether specific COVID-19 rent concessions is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for lessors. The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession

received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification. The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes for lessors. All of the following conditions in relation to the lessee expedient need to be met: (1) The rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided; (2) The rent concession is for relief for payments that were originally due on or before June 30, 2021. So, payments included are those required to be reduced on or before June 30, 2021, but subsequently rental increases of amounts deferred can go beyond June 30, 2021; and (3) There are no other substantive changes to the other terms and conditions of the lease. The amendment is applicable for reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including for financial statements not yet authorized for issue at May 28, 2020 (the date the amendment was issued). The management believes that the amendment has no material impact on the Bank's financial statements.

Rent expense recognized from its statement of income amounted to P 408,397 and P 394,950 as at December 31, 2022 and 2021, respectively.

NOTE 32 – BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The Bank's key financial performance indicators follow (in %):

	2022	2021
Return on average equity	5.16	5.02
Return on average assets	0.82	0.77
Net interest margin	10.80	11.75
Capital risk asset ratio	15.46	16.96
Risk-based capital adequacy ratio	13.25	15.04

NOTE 33 – EVENTS AFTER BALANCE SHEET DATE

Events after the balance sheet date includes transactions that do not materially affect the financial statements of the Bank. There were no events after the balance sheet date that would require a disclosure or adjustment on the financial statements of the Bank.

NOTE 34 – COMMITMENTS AND CONTINGENCIES

The Bank has no outstanding provisions, commitments and contingent liabilities as of December 31, 2022 and 2021. However, court cases are filed by and against the Bank in the ordinary course of operations. The Bank's management believes that there is a possible obligation that may, but probably will not, require an outflow of resources. Thus, there is neither provision nor contingent liability that has been provided that needs to be presented in the financial statements of the Bank as of December 31, 2022.

NOTE 35 – CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Bank monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarized as follows:

	2022	2021
Total Liabilities	P 455,043,650	P 440,835,354
Total Equity	86,613,308	81,730,715
Debt to Equity Ratio	5.25	5.39

The Bank manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

NOTE 36 – SUPPLEMENTARY INFORMATION UNDER BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

1. Basic Quantitative Indicator of Financial Performance such as:

	2022	2021
a) Return on average equity (%)	5.16	5.02
b) Return on average assets (%)	0.82	0.77
c) Net interest margin (%)	10.80	11.75

2. Description of capital instruments issued:

2022	None to report
2021	None to report

3. Significant credit exposures (30.0 percent of the total loan portfolio or 10.0 percent of Tier 1) as to industry/economic sector;

	2022	%	2021	%
Agriculture, Fishing and Forestry	P 80,790,766	21.2%	P 94,865,404	28.56%
Mining and Quarrying	18,819,799	4.9%	1,612,818	0.49%
Manufacturing	389,615	0.1%	717,071	0.22%
Electricity, Gas and Water Supplies	779,256	0.2%	456,148	0.14%
Construction	52,768,326	13.9%	56,806,390	17.10%
Wholesale and Retail Trade	67,942,016	17.8%	68,341,371	20.58%
Accommodation and Food Service	7,606,585	2.0%	7,613,930	2.29%
Transportation and Storage	3,845,855	1.0%	3,736,494	1.13%
Administrative Support Activities	632,298	0.2%	1,144,686	0.34%
Information and Communication	95,557	0.0%	50,143	0.02%
Financial and Insurance	-	0.0%	-	0.00%
Real Estate Activities	3,684,900	1.0%	2,384,940	0.72%
Professional, Scientific and Technical Activities	4,221	0.0%	-	-
Arts, Entertainment and Recreation	6,694	0.0%	39,804	0.01%
Human Health and Social Work Activities	998,354	0.3%	2,449,902	0.74%
Education	12,789,964	3.4%	9,675,787	2.91%
Other Service Activities	32,778,415	8.6%	11,355,805	3.42%
Personal Use	96,824,120	25.4%	70,853,622	21.33%
	P 380,756,741	100%	P 332,104,315	100%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. As of December 31, 2022, and 2021, no loan exceeded 30% of Bank's total Loan Portfolio.

4. Breakdown of total loans as to:

(i) as to security (secured, including type of security, and unsecured):

	2022	In %	2021	In %
Unsecured	P 220,200,805	58	P 214,678,236	64.64
Secured	160,555,940	42	117,426,079	35.36
	380,756,745	100.00	332,104,315	100.00
Secured				
Real estate mortgage	152,634,871	95	110,629,660	94.21
Other Collaterals	7,921,069	5	6,796,418	5.79
	P 160,555,940	100.00	P 117,426,079	100.00

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(ii) as to status (performing and non-performing per product line);

	2022			TOTAL	%
	CURRENT	PERFORMING	NON PERFORMING		
Agriculture, Fishing and Forestry	P 50,802,562	P 1,477,386	P 28,510,819	P 80,790,767	21.2
Mining and Quarrying	18,104,125	597,751	117,922	18,819,798	4.9
Manufacturing	258,548	-	131,066	389,614	0.1
Electricity, Gas and Water Supplies	571,690	-	207,566	779,256	0.2
Construction	52,634,255	-	134,071	52,768,326	13.9
Wholesale and Retail Trade	58,991,488	334,959	8,615,568	67,942,015	17.8
Accommodation and Food Service	7,282,283	-	324,302	7,606,585	2.0
Transportation and Storage	2,070,351	-	1,775,504	3,845,855	1.0
Administrative Support Activities	604,063	-	28,235	632,298	0.2
Information and Communication	95,557	-	-	95,557	0.0
Real Estate Activities	3,684,900	-	-	3,684,900	1.0
Professional, Scientific and Technical Activities	4,221	-	-	4,221	0.0
Arts, Entertainment and Recreation	-	-	6,694	6,694	0.0
Human Health and Social Work Activities	998,354	-	-	998,354	0.3
Education	12,746,885	-	43,078	12,789,963	3.4
Other Service Activities	31,164,926	1,444,498	168,993	32,778,417	8.6
Personal Use	84,457,638	415,715	11,950,767	96,824,120	25.4
	P 324,471,846	P 4,270,309	P 52,014,585	P 380,756,741	100.00

	2021			TOTAL	%
	CURRENT	PERFORMING	NON PERFORMING		
Agrarian Reform	P 84,002,638	P 2,226,873	P 8,635,893	P 94,865,404	28.56
Mining and Quarrying	1,372,145	119,221	121,451	1,612,818	0.49
Manufacturing	552,537	-	164,534	717,071	0.22
Electricity, Gas and Water Supplies	274,477	-	181,671	456,148	0.14
Construction	56,669,692	-	136,698	56,806,390	17.10
Wholesale and Retail Trade	54,596,801	1,964,882	11,779,688	68,341,371	20.58
Accommodation and Food Service	7,376,575	15,235	222,120	7,613,930	2.29
Transportation and Storage	1,948,014	-	1,788,480	3,736,494	1.13
Administrative Support Activities	1,116,451	-	28,235	1,144,686	0.34
Information and Communication	50,143	-	-	50,143	0.02
Real Estate Activities	2,384,940	-	-	2,384,940	0.72
Arts, Entertainment and Recreation	33,110	-	6,694	39,803	0.01
Human Health and Social Work Activities	2,449,902	-	-	2,449,902	0.74
Education	9,631,097	-	44,691	9,675,787	2.91
Other Service Activities	11,153,080	48,088	154,637	11,355,804	3.42
Personal Use	55,628,493	2,507,777	12,717,352	70,853,622	21.33
	P 289,240,095	P 6,882,076	P 35,982,144	P 332,104,314	100.00

5. Information on related party loans broken down as follows:

Particulars	2022		2021	
	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Outstanding loans	P 0.00	P 0.00	P 120,833	P 499,056
Percent of DOSRI/Related Party Loans to total loan portfolio	0.00%	0.00%	0.30%	1.52%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.00%
Percent of past due DOSRI/Related Party loans to total DOSRI/Related Party loans	0.00%	0.00%	0.00%	0.00%
Percent of non-performing DOSRI/ Related Party loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.00%

6. Aggregate amount of secured liabilities and asset pledged as security:

The Bank has no secured liabilities and asset pledged as security amounted as of December 31, 2022 and 2021, respectively.

7. Nature and amount of contingencies and commitments arising from off-balance sheet items [include direct credit substitutes (e.g., export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g. performance bonds, bid bonds, standby LCs), short-term self-liquidating trade related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange-rate related items; and other commitments. None to report

NOTE 37 – SUPPLEMENTARY TAX INFORMATION UNDER REVENUE REGULATION (RR) 15-2010

In November 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations 15-2010 which requires all companies to disclose all taxes and license fees paid or accrued during the taxable year. This information is presented for purposes of filing with the BIR and is not required part of the basic financial statements. The Company reported and/ or paid the following types of taxes as follows:

A – Taxes and Licenses

	2022	2021
Gross Receipts Tax (GRT)	P 3,398,951	P 3,223,341
Business Permits and Licenses	380,284	340,796
Realty Tax	327,993	21,217
Annual Registration Fee	600	43,158
Others	15,688	17,001
	P 4,123,516	P 3,645,513

Gross Receipts Tax (GRT)

The Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, commissions and discounts from lending activities at 5% or 1%, depending on the remaining maturities of instruments from which such receipts are derived, and at 7% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

B – Documentary Stamp Tax

	2022	2021
On Debt Instruments	P 2,055,536	P 1,765,786

C - Withholding Taxes

	2022	2021
Compensation and Benefits	P 426,744	P 327,868
Expanded	274,566	253,959
Final	1,114,240	1,037,735
	P 1,815,550	P 1,619,562

D - Tax Assessments

The Bank has no pending tax cases outside the administration of the BIR.

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