CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank

Financial Statements
December 31, 2022 and 2021

and

Independent Auditor's Report

SGV
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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of comprehensive income, statements of changes in assigned capital funds and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Section 174 of Manual of Regulations for Banks (MORB) and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Section 174 of Manual of Regulations MORB in Note 22 and Revenue Regulations 15-2010 in Note 23 to the financial statements is presented for purposes of filing with the BSP and the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

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PTR No. 9369777, January 3, 2023, Makati City

April 28, 2023

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Cash and other cash items	**₱48,452,725**	₱44,163,490
Due from Bangko Sentral ng Pilipinas (Notes 6 and 10)	**83,383,507**	94,846,928
Due from other banks (Note 6)	**1,216,729,377**	1,719,052,126
Loans and receivables (Note 7)	**4,283,933,099**	4,095,381,351
Investment securities at amortized cost (Note 7)	**83,769,670**	19,853,863
Property and equipment (Note 8)	**259,815,784**	254,000,902
Retirement asset (Note 15)	**24,619,373**	4,952,981
Deferred tax assets (Note 18)	**85,522,505**	68,036,718
Other assets (Note 9)	**117,372,557**	113,005,021
	₱6,203,598,597	₱6,413,293,380
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 10 and 19)		
Regular savings	**₱3,877,738,954**	₱3,872,010,960
Special savings	**168,558,718**	577,714,250
Demand	**22,175,434**	2,302,716
	4,068,473,106	4,452,027,926
Bills payable (Note 11)	–	397,366,174
Income tax payable	**53,242,899**	15,032,570
Deposits for future stock subscription (Note 13)	–	69,174,000
Other liabilities (Note 11)	**365,098,052**	238,435,046
	4,486,814,057	5,172,035,716
Equity		
Capital stock (Note 13)		
Common stock	**1,006,419,700**	800,000,000
Preferred stock	**200,000,000**	200,000,000
Surplus free	**507,225,535**	238,986,246
Surplus reserve (Note 7)	–	17,855,712
Remeasurement gain (loss) on retirement plan (Note 15)	**3,139,305**	(15,584,294)
	1,716,784,540	1,241,257,664
	₱6,203,598,597	₱6,413,293,380

See accompanying Notes to Financial Statements.

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF INCOME

	Years Ended December 31	
	2022	2021
INTEREST INCOME		
Loans and receivables (Note 7)	**₱2,078,330,281**	₱1,781,867,142
Due from other banks (Note 6)	**31,408,825**	18,938,389
Investment securities at amortized cost (Note 7)	**1,611,983**	358,457
	2,111,351,089	1,801,163,988
INTEREST EXPENSE		
Deposit liabilities (Notes 10 and 19)	**184,081,315**	140,088,499
Bills payable (Note 11)	**6,197,333**	10,091,652
Lease liabilities (Note 16)	**6,332,496**	6,589,545
	196,611,144	156,769,696
NET INTEREST INCOME	**1,914,739,945**	1,644,394,292
OTHER INCOME	**32,580,043**	7,845,669
TOTAL OPERATING INCOME	**1,947,319,988**	1,652,239,961
OPERATING EXPENSES		
Compensation and benefits (Notes 14, 15 and 19)	**478,759,596**	440,849,408
Provision for credit losses (Note 7)	**201,672,692**	283,928,389
Taxes and licenses	**162,628,864**	139,950,469
Transportation and travel	**141,861,589**	119,259,215
Information technology	**114,391,514**	100,809,272
Depreciation and amortization (Notes 8 and 9)	**113,095,668**	108,415,050
Stationeries and supplies	**66,572,064**	33,652,668
Rent (Note 16)	**30,084,368**	39,044,659
Training and development	**27,546,101**	15,560,353
Security, messengerial, janitorial services	**23,413,672**	85,821,958
Power, light and water	**16,343,177**	14,509,330
Seminars and meetings	**10,206,414**	9,091,448
Insurance	**10,084,617**	13,745,439
Postage, telephone, cables and telegrams	**9,048,102**	12,832,403
Professional fees	**5,092,467**	2,379,504
Fines, penalties and other charges	**113,500**	4,718,330
Miscellaneous (Note 17)	**29,192,985**	23,915,369
	1,440,107,390	1,448,483,264
INCOME BEFORE INCOME TAX	**507,212,598**	203,756,697
PROVISION FOR INCOME TAX (Note 18)	**127,329,021**	59,766,477
NET INCOME	**₱379,883,577**	₱143,990,220

See accompanying Notes to Financial Statements.

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2022	2021
NET INCOME	**₱379,883,577**	₱143,990,220
OTHER COMPREHENSIVE GAIN (LOSS)		
Other comprehensive gain not recycled to profit or loss in subsequent periods:		
Remeasurement gain (loss) on retirement plan (Note 15)	**24,964,798**	(9,014,660)
Income tax effect (Note 18)	**(6,241,199)**	1,665,444
	18,723,599	(7,349,216)
TOTAL COMPREHENSIVE INCOME	**₱398,607,176**	₱136,641,004

See accompanying Notes to Financial Statements.

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 13)	Preferred Stock (Note 13)	Surplus Free	Surplus Reserve (Note 7)	Remeasurement Loss on Retirement Plan (Note 15)	Total
Balances at January 1, 2022	**₱800,000,000**	**₱200,000,000**	**₱238,986,246**	**₱17,855,712**	**(₱15,584,294)**	**₱1,241,257,664**
Issuance of shares (Note 13)	**120,113,000**	–	–	–	–	**120,113,000**
Subscribed shares (Note 13)	**60,713,000**	–	–	–	–	**60,713,000**
Subscription receivable (Note 13)	**(43,580,300)**	–	–	–	–	**(43,580,300)**
Application of deposit for future stock subscription (Note 13)	**69,174,000**	–	–	–	–	**69,174,000**
Total comprehensive income for the year	–	–	**379,883,577**	–	**18,723,599**	**398,607,176**
Release from surplus appropriation	–	–	**17,855,712**	**(17,855,712)**	–	–
Declaration of cash dividends (Note 13)	–	–	**(129,500,000)**	–	–	**(129,500,000)**
Balances at December 31, 2022	**₱1,006,419,700**	**₱200,000,000**	**₱507,225,535**	**₱–**	**₱3,139,305**	**₱1,716,784,540**
Balances at January 1, 2021	₱748,222,700	₱109,872,600	₱256,725,886	₱17,855,712	(₱8,235,078)	₱1,124,441,820
Issuance of shares (Note 13)	15,277,400	90,127,400	–	–	–	105,404,800
Total comprehensive income for the year	–	–	143,990,220	–	(7,349,216)	136,641,004
Declaration of cash dividends (Note 13)	–	–	(125,229,960)	–	–	(125,229,960)
Declaration of stock dividends (Note 13)	36,499,900	–	(36,499,900)	–	–	–
Balances at December 31, 2021	₱800,000,000	₱200,000,000	₱238,986,246	₱17,855,712	(₱15,584,294)	₱1,241,257,664

See accompanying Notes to Financial Statements.

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱507,212,598**	₱203,756,697
Adjustments for:		
Depreciation and amortization (Note 8)	**113,095,668**	108,415,050
Provision for credit losses (Note 7)	**201,672,692**	283,928,389
Amortization of documentary stamp tax on bills payable (Notes 11 and 20)	**2,633,826**	5,155,438
Retirement expense (Note 15)	**12,441,087**	10,377,657
Amortization of financial assets at amortized cost	**(119,479)**	(99,734)
Operating income before changes in operating assets and liabilities:	**836,936,392**	611,533,497
Decrease (increase) in the amounts of:		
Loans and receivables	**(390,224,440)**	(679,427,413)
Other assets	**(10,458,418)**	40,101,088
Increase (decrease) in the amounts of:		
Deposit liabilities	**(383,554,820)**	239,830,969
Other liabilities	**118,495,304**	61,720,487
Net cash generated from operations	**171,194,018**	273,758,628
Contributions to retirement asset (Note 15)	**(7,142,681)**	(5,005,380)
Income taxes paid	**(112,845,678)**	(58,813,578)
Net cash provided by operating activities	**51,205,659**	209,939,670
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Notes 8 and 20)	**(36,498,789)**	(37,933,126)
Intangible assets (Note 9)	–	(2,848,102)
Placement on investment securities at amortized cost (Note 7)	**(69,873,264)**	–
Proceeds from maturity of investment securities at amortized cost (Note 7)	**6,076,936**	5,157,672
Net cash used in investing activities	**(100,295,117)**	(35,623,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of common stock (Notes 13 and 20)	**120,113,000**	15,277,400
Subscription of shares (Notes 13 and 20)	**17,132,700**	–
Issuance of preferred stock (Notes 13 and 20)	–	90,127,400
Availment of bills payable (Notes 11 and 20)	–	397,041,096
Deposit for future stock subscription (Notes 13 and 20)	–	69,174,000
Settlements of:		
Bills payable (Notes 11 and 20)	**(400,000,000)**	(862,500,000)
Dividend distribution (Notes 13 and 20)	**(129,569,450)**	(125,374,249)
Payment of principal portion of lease liabilities (Notes 16 and 20)	**(68,083,727)**	(64,601,541)
Net cash used in financing activities	**(460,407,477)**	(480,855,894)

(Forward)

	Years Ended December 31	
	2022	2021
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(₱509,496,935)**	(₱306,539,780)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**₱44,163,490**	₱16,122,720
Due from Bangko Sentral ng Pilipinas	**94,846,928**	90,342,664
Due from other banks	**1,719,052,126**	2,058,136,940
	₱1,858,062,544	₱2,164,602,324
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**₱48,452,725**	₱44,163,490
Due from Bangko Sentral ng Pilipinas	**83,383,507**	94,846,928
Due from other banks	**1,216,729,377**	1,719,052,126
	₱1,348,565,609	₱1,858,062,544
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱2,093,876,173**	₱1,782,417,899
Interest paid	**84,645,188**	105,209,595

See accompanying Notes to Financial Statements.

CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank (the Bank) was incorporated under Philippine laws by virtue of Securities and Exchange Commission (SEC) Certificate of Registration No. AS094-11394 dated December 15, 1994 with a corporate life of 50 years. Based on the provisions of Republic Act No. 11232, otherwise known as "An Act Providing for the Revised Corporation Code of the Philippines," the Bank has a perpetual existence.

The Bank was granted the authority by the Bangko Sentral ng Pilipinas (BSP) to operate on April 29, 1996. It was established primarily to engage in the business of rural banking as defined and authorized under Republic Act No. 3779, As Amended, such as granting loans to small farmers and to deserving rural enterprises, as well as receiving deposits in accordance with the regulations promulgated by the Monetary Board.

As of December 31, 2022 and 2021, the Bank's majority stockholder is CARD Bank, Inc.

The principal place of business of the Bank is at P. Guevarra St., corner Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna. As at December 31, 2022, the Bank consists of its head office and thirty-eight (38) branches.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso (₱), the Bank's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) are disclosed in Note 12.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

The Bank has no offsetting arrangements with its counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new accounting pronouncements which became effective as of January 1, 2022. These changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 percent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Significant Accounting Policies

Fair Value Measurement
For measurement and disclosure purposes, the Bank determines fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of the principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability assuming the market participants act in their economic best interest.

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market, except for derivatives, are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to:

a. the recognition of an asset on the day it is received by the Bank; and
b. the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset.

In cases when the fair value is determined using data which are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

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).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss (FVTPL).

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 at 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 'stress case' 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
Debt 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 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 solely payments of principal and interest on the principal amount outstanding.

Debt 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, with the interest calculated recognized as 'Interest income' in the statement of income. The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Investment securities at amortized cost', 'Loans and receivables', and security deposits (included under 'Other assets') as financial assets at amortized cost.

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 debt financial asset been measured at amortized cost.

As of December 31, 2022 and 2021, the Bank has not made such designation.

Financial liabilities
This category represents issued financial instruments or their components, which are not designated at FVTPL where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The financial liabilities at amortized cost are classified under the statement of the financial position captions 'Deposit liabilities' and 'Bills payable', and financial liabilities presented under 'Other liabilities'. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate (EIR).

This accounting policy relates to the balance sheet captions ‘Deposit liabilities’, ‘Bills payable’ and financial liabilities presented under ‘Other liabilities’.

Impairment of Financial Assets

Expected credit losses (ECL) represent 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 are 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. 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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is 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 ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The Bank recognizes lifetime ECL on all of its non-impaired financial instruments since the Bank assessed that the expected life of its financial assets does not exceed 12 months. As a result, the Bank considers these instruments under Stage 1, regardless whether SICR already exists since 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.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also 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., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

ECL parameters and methodologies

ECL is a function of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), 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 represents the likelihood that a credit exposure will not be repaid and will go into default. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays and multiple economic scenarios
The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to multiple future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs. 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 address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material

Financial asset carried at amortized cost
For financial assets carried at amortized cost, which includes 'Loans and receivables', 'Due from BSP', 'Due from other banks', and refundable rental deposits under 'Other assets'. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account.

If a write-off is later recovered, any amounts formerly charged are credited to 'Miscellaneous' in the statements of income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as days past-due and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Restructured receivables
Where possible, the Bank seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, the receivable is no longer considered past due.

Management continuously reviews restructured receivables to ensure that all criteria are met and that future payments are likely to occur. The receivables continue to be subject to an individual or collective impairment assessment, calculated using the receivable's original EIR. The difference between the recorded value of the original receivable and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit losses' in the statements of income.

Modification of financial assets
The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- introduction of an equity feature;
- change in counterparty; and
- if the modification results in the asset no longer considered SPPI.

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statements of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the rights to receive cash flows from the asset have expired; or
b. the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
c. the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Bank’s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender’s return). The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).

Whether the Bank has retained control of the transferred asset depends on the transferee’s ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liabilities

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

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account consists of prepaid rentals and prepaid expenses under ‘Other assets’ in the statement of financial position. Prepayments are apportioned over the period covered by the payments and charged to the appropriate accounts in the statements of income when incurred.

Property and Equipment
Depreciable property and equipment, which include building, furniture, fixtures and equipment, information technology equipment, transportation equipment and leasehold improvements, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The initial cost is comprised of construction costs and any other directly attributable costs of bringing the asset to its working condition and location for its intended use. Construction-in-progress is not depreciated and is transferred to the related property and equipment account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for use.

Depreciation is calculated on the straight-line method over the estimated useful lives (EUL) of the depreciable assets. The EULs of the depreciable assets follow:

Building	10 years
Furniture, fixtures and equipment	3 to 7 years
Information technology equipment	3 to 5 years
Transportation equipment	3 years
Leasehold and improvements	5 years or the terms of the related leases, whichever is shorter

The EULs, residual value and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against statement of income.

Intangible Assets
The Bank's intangible assets include software costs under development and purchased licenses amortized on a straight-line basis over EUL of 3 years and recognized under 'Other assets' in the statement of financial position. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

If the Bank acquires intangible assets by subcontracting other parties (e.g., development-and-supply contracts or research and development contracts), the Bank must exercise judgment in determining whether it is acquiring an intangible asset or whether it is obtaining goods and services that are being used in the development of an intangible asset by the entity itself. In the latter case, the Bank will only be able to recognize an intangible asset if the expenditures meet the criteria which confirm that the related activity is at a sufficiently advanced stage of development, which shall be both technically and commercially viable and includes only directly attributable costs.

Only expenditure arising from the development phase can be considered for capitalization, with all expenditure on research being recognized as an expense when it is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income under 'Depreciation and amortization'.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Impairment of Nonfinancial Assets
At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to the statement of income in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Deposits for Future Stock Subscription (DFS)
DFS represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock.

Under SEC Financial Reporting Bulletin No. 006 issued in 2012 and amended in 2013, an entity should not consider a DFS as an equity instrument unless all of the following elements are present.

1. The unissued authorized capital stock of the Bank is insufficient to cover the amount of shares classified as deposits for future shares subscriptions;
2. The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
3. An application for the approval of the increase in capital stock has been filed with the SEC and BSP.

If any or all of the foregoing elements above are not present, the DFS should be recognized as a financial liability.

As of December 31, 2021, the Bank has DFS recorded under liabilities amounting to ₱69.17 million (Note 13). In 2022, the DFS has been applied for the issuance of common shares.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Capital stock consists of common and preferred. Preferred stocks are: (a) cumulative, (b) non-voting, and (c) non-redeemable.

Common stock is recognized at subscribed amount net of any subscription receivable. This will be credited upon full payment of the subscription and issuance of the shares of stock.

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

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

Retirement Benefits
The Bank operates a defined benefit retirement plan and a defined contribution plan, which require contributions to be made to a separately administered fund.

Defined benefit retirement plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Remeasurement gains (losses) on retirement liabilities' under OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

Right-of-use assets
The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Office space	2 - 12 years
Vehicles	1.5 - 2 years

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of machinery. It also applies the lease of low-value assets recognition exemption to leases of machinery that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Operating lease - Bank as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized under 'Rent' in the statements of comprehensive income on a straight-line basis over the lease term.

<u>Revenue Recognition</u>
Interest income
For all financial assets measured at amortized cost, interest income is recorded at EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the

financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Under PFRS 9, when a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Expense Recognition

Expenses are recognized when it is probable that decrease in the future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses are recognized as incurred.

Interest expense

Interest expense for financial liabilities is recognized in 'Interest expense' in the statement income using the EIR of the financial liabilities to which they relate.

Other expenses

Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The Bank allows to carry-over maximum of 30 and 60 days paid leave for its staff and managerial levels, respectively. Employees can convert to cash up to ten (10) days leave credits in the following year. The excess of the allowed leave credits shall likewise be converted to cash. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period and reported under 'Other liabilities' in the statements of financial position.

For leave entitlements expected to be settled for more than twelve months after the reporting date, valuation of the liability is dependent on certain assumptions used by the Bank's internal actuary. These include, among others, discount rate, future salary increase rate, and turnover rate. As at December 31, 2022 and 2021, valuation methodology used was Earned Portion Present Value of Expected Future Liability and reported under 'Other Liabilities' in the statements of financial position.

Income Taxes

Current tax

Current tax assets and current tax liabilities for the current period 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 substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Current income tax and deferred income tax relating to items recognized directly in equity is recognized in OCI, and not in profit or loss.

Provisions and Contingencies
Provisions are recognized when the Bank has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to time value of money is recognized as ‘Interest expense’ in the statement of comprehensive income.

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

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

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Bank intends to adopt the following pronouncements when they become effective. Unless otherwise stated, adoption of these pronouncements is not expected to have a significant impact on the Bank’s financial statements.

Effective beginning on or after January 1, 2023

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

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Currentor Non-current*
- Amendments to PFRS 16*, Lease Liability in a Sale and Leaseback*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

3. Significant Accounting Judgments and Estimates

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

Judgments 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 estimations, which have the most significant effect on the amounts recognized in the financial statements.

a) *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities recognized or disclosed in the statements of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

b) *Determination of the lease term for lease contracts with renewal and termination options*

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

c) *Going concern assessment*
The Bank's management has made an assessment of the Bank's ability to continue as going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Leases - Estimating the incremental borrowing rate*
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs (by reference to average bank lending rates). The carrying amount of the right-of-use assets amounted to ₱133.73 million and ₱118.36 million as of December 31, 2022 and 2021, respectively (Note 8). Lease liabilities amounted to ₱134.85 million and ₱120.28 million as of December 31, 2022 and 2021, respectively (Note 16).

(b) *Expected credit losses on financial assets (PFRS 9)*
The Bank's ECL calculations are outputs of complex with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment.
- The segmentation of the financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of association between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs to the ECL models

The related allowance for credit losses of financial assets are disclosed in Note 7.

(c) *Recognition of deferred tax assets*
The amount of deferred tax assets recognized by the Bank is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

The Bank recognized net deferred tax assets amounting to ₱85.52 million and ₱68.04 million as of December 31, 2022 and 2021, respectively (Note 18).

(d) *Present value of defined benefit obligation*
The cost of defined benefit retirement plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements.

The Bank has a net retirement asset amounting to ₱24.62 million and ₱4.95 million as of December 31, 2022 and 2021, respectively (Note 15).

4. Fair Value Measurement

As of December 31, 2022, and 2021, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

The methods and assumptions used by the Bank in estimating fair values of financial instruments for which fair value is disclosed are as follows:

Cash and other cash items, due from BSP, due from other banks, current portion of receivables, accrued interest receivable, current portion of refundable deposits, current portion of deposit liabilities, bills payable, accrued expenses, accrued interest payable, accounts payable and dividends payable.
Fair values of these financial instruments approximate their carrying values in view of the short-term maturities of these instruments.

The following tables summarize the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's financial assets and liabilities as at December 31, 2022 and 2021:

	2022				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Investment securities at amortized cost	**₱83,769,670**	**₱–**	**₱60,100,122**	**₱23,309,952**	**₱83,410,074**
Other assets					
Refundable rental deposits	**15,025,012**	**–**	**–**	**14,683,707**	**14,683,707**
Financial liabilities					
Deposit liabilities	**4,068,473,106**	**–**	**–**	**3,849,140,278**	**3,849,140,278**
Accrued vacation leave	**8,537,473**	**–**	**–**	**8,537,473**	**8,537,473**

	2021				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Investment securities at amortized cost	₱19,853,863	₱–	₱–	₱17,174,285	₱17,174,285
Other assets					
Refundable rental deposits	15,923,747	–	–	15,440,350	15,440,350
Financial liabilities					
Deposit liabilities	4,452,027,926	–	–	4,266,068,987	4,266,068,987
Accrued vacation leave	9,645,468	–	–	9,645,468	9,645,468

Investment securities at amortized cost,
Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 1 include risk-free rates and applicable risk premium ranging from 6.36% to 6.70% in 2022 and under Level 3 ranging from 3.78% to 6.68% and 1.84% to 4.36% in 2022 and 2021, respectively.

Noncurrent portion of refundable deposits
Fair values of noncurrent portion of refundable deposit were estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings, ranging from 3.55% to 7.19% and 4.39% to 5.27% in 2022 and 2021, respectively.

Noncurrent portion of deposit liabilities
Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology, using risk-free rates and applicable premium, ranging from 3.76% to 6.69% and 0.13% to 5.43% in 2022 and 2021, respectively, with maturities consistent with those remaining for the liability being valued, if any.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2022 and 2021.

5. **Financial Risk Management Objectives and Policies**

In the course of the business cycle, the Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

The Bank has instituted the Risk Management Committee (RMC), composed of Independent director as chairman and majority of the members are independent directors, which is responsible for the comprehensive development of financial risk strategies, principles, frameworks, policies and limits purposely to eliminate or at least reduce the risk the Bank faces in banking activities and thus optimize returns on the capital or equity.

The Bank adheres to the proactive and prudent approach of managing the business that recognizes and manages risks to continuously provide quality financial services to clients and to protect shareholders' value.

Risk management process involves identifying and assessing the risk, taking actions to mitigate the risks through defined roles and responsibilities, close monitoring of the scenarios, and adjustment of the systems and policies necessary to effectively minimize risk level.

The BOD through its RMC is responsible for monitoring the Bank's implementation of risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The RMC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee (AC).

<u>Credit Risk</u>
Credit risk is the risk of financial loss to the Bank if the counterparty to a financial instrument fails to meet its contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Management of credit risk
The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties or invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities).

The Bank manages credit risks by instilling credit discipline both among the staff and the borrowers. Close-monitoring and assessment of account throughout the borrowing period is being done. Moreover, on-time and quality service delivery increase motivation of the borrowers to fulfill their financial obligation. Instilling good credit discipline and commitment are always considered through regular orientation and training. Consequently, their savings balances are pledged and serve as guarantee to their loans, which increase their borrowing capacity. Each business unit has a designated Unit Manager, who reports on all credit-related matters to Area Manager and Regional Director. Each business unit is responsible for the quality and performance of its credit portfolio and monitoring and controlling risks associated with it. Regular audits of business units and credit processes are undertaken by IA. In addition, Executive Committee and Management Committee members of the Bank regularly conduct monitoring based on their respective target per month. This strategy further ensures that business unit's implementation is within the credit policy and regulation of the Bank. Regular capacity building program through provisions of banking-related trainings such as but not limited to credit risk management, managing business, and delinquency management are regularly run. Availability of operations manual as reference, assist personnel in handling daily transaction. The manual is customized for microfinance clients and is being updated as often as new policies and procedures are finalized and approved by the BOD, based on client and staff satisfaction surveys, staff and management program review and planning meetings and workshops. A codified signing authority is in place for every level of loan processing and approval.

All past due accounts are reported on daily, weekly and monthly bases. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Writing off bad accounts are approved by the BOD and reported to the BSP in compliance with the rules and regulations for banks.

The RMC closely monitors the over-all credit operations. Identified existing and potential risks are acted upon appropriately and are reported during monthly meetings of the BOD.

Maximum exposure to credit risk
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below as at December 31, 2022 and 2021:

	2022			
	Maximum Exposure	**Fair Value of Collateral**	**Financial Effect of Collateral**	**Net Exposure**
Loans and receivables				
Microfinance loans	**₱3,895,830,758**	**₱874,013,549**	**₱499,267,651**	**₱3,396,563,107**
Other loans	**615,531,269**	**386,910,450**	**153,107,788**	**462,423,481**

	2021			
	Maximum Exposure	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Loans and receivables				
Microfinance loans	₱3,736,366,500	₱895,463,623	₱881,656,649	₱2,854,709,851
Other loans	510,433,646	123,205,397	120,206,900	390,226,746

As at December 31, 2022 and 2021, the Bank does not hold any collateral or other credit enhancements to cover the credit risks associated with its due from BSP and other banks, other receivables and other financial assets. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.00% of the original amount of the loan to the member as at December 31, 2022 and 2021.

The Bank has no financial instruments with rights of set-off in accordance to PAS 32, *Financial Instruments: Presentation*, as at December 31, 2022 and 2021. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments to PFRS 7, *Financial Instruments: Disclosures*.

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

	2022				
	Loans and Receivables	**Due from BSP and Other Banks**	**Investment securities at Amortized Cost**	**Other Assets***	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱2,412,452,091**	**₱–**	**₱–**	**₱10,931,891**	**₱2,423,383,982**
Agriculture, hunting and forestry	**872,637,209**	**–**	**–**	**–**	**872,637,209**
Government	**1,585,896**	**785,815,510**	**83,769,670**	**–**	**871,171,076**
Financial institutions	**5,058,376**	**514,297,374**	**–**	**3,792,965**	**523,148,715**
Administrative and support service activities	**296,485,770**	**–**	**–**	**–**	**296,485,770**
Real estate activities	**198,328,406**	**–**	**–**	**300,156**	**198,628,562**
Manufacturing	**175,424,950**	**–**	**–**	**–**	**175,424,950**
Construction	**154,792,359**	**–**	**–**	**–**	**154,792,359**
Accommodation and food service activities	**133,918,420**	**–**	**–**	**–**	**133,918,420**
Human health and social work activities	**104,216,296**	**–**	**–**	**–**	**104,216,296**
Arts, entertainment and recreation	**84,050,617**	**–**		**–**	**84,050,617**
Other community, social and personal service activities	**56,584,739**	**–**	**–**	**–**	**56,584,739**
Education	**48,151,268**	**–**	**–**	**–**	**48,151,268**
Transportation and storage	**35,525,805**	**–**	**–**	**–**	**35,525,805**
Information and communication	**18,521,744**	**–**	**–**	**–**	**18,521,744**
Professional, scientific and technical services	**20,655,420**	**–**	**–**	**–**	**20,655,420**
Electricity, gas and water supply	**9,647,319**	**–**	**–**	**–**	**9,647,319**
Water supply, sewerage, waste management, and remediation activities	**4,941,957**	**–**	**–**	**–**	**4,941,957**
Mining and quarrying	**425,907**	**–**	**–**	**–**	**425,907**
	4,633,404,549	**1,300,112,884**	**83,769,670**	**15,025,012**	**6,032,312,115**
Less :Allowance for credit losses	**349,471,450**	**–**	**–**	**–**	**349,471,450**
Total	**₱4,283,933,099**	**₱1,300,112,884**	**₱83,769,670**	**₱15,025,012**	**₱5,682,840,665**

**Pertains to refundable rental deposit.*

	2021				
	Loans and Receivables	Due from BSP and Other Banks	Investment securities at Amortized Cost	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱2,386,619,274	₱–	₱–	₱10,655,634	₱2,397,274,908
Agriculture, hunting and forestry	629,698,949	–	–	–	629,698,949
Government	2,327,957	1,635,740,042	19,853,863	–	1,657,921,862
Financial institutions	983,790	178,159,012	–	5,268,113	184,410,915
Administrative and support service activities	200,355,214	–	–	–	200,355,214
Real estate activities	163,526,772	–	–	–	163,526,772
Manufacturing	180,171,374	–	–	–	180,171,374
Construction	278,061,670	–	–	–	278,061,670
Accommodation and food service activities	127,656,313	–	–	–	127,656,313
Human health and social work activities	66,769,438	–	–	–	66,769,438
Arts, entertainment and recreation	81,914,948	–		–	81,914,948
Other community, social and personal service activities	96,078,872	–	–	–	96,078,872
Education	38,019,292	–	–	–	38,019,292
Transportation and storage	46,416,340	–	–	–	46,416,340
Information and communication	23,893,926	–	–	–	23,893,926
Professional, scientific and technical services	16,977,029	–	–	–	16,977,029
Electricity, gas and water supply	5,501,707	–	–	–	5,501,707
Water supply, sewerage, waste management, and remediation activities	4,200,723	–	–	–	4,200,723
Mining and quarrying	402,165	–	–	–	402,165
	4,349,575,753	1,813,899,054	19,853,863	15,923,747	6,199,252,417
Less :Allowance for credit losses	254,194,402	–	–	–	254,194,402
Total	₱4,095,381,351	₱1,813,899,054	₱19,853,863	₱15,923,747	₱5,945,058,015

**Pertains to refundable rental deposits*

Credit quality per class of financial assets
The financial assets are grouped according to stage whose description is explained as follows:

Stage 1
Microfinance loans
Those that are considered current, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Other loans
Agri Loans and Other Loans
Those that are considered current, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Business Loans and Salary Loans
Those that are considered current and up to 29 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk

Stage 2
Other loans
Business Loans and Salary Loans
Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered 30 up to 89 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3
Microfinance loans
Those that are considered in default or when the borrower has missed any installment payments and is past due for one (1) or more days.

Other loans
Other Loans and Agri Loans
Those that are considered in default or when the borrower has missed any installment payments and is past due for one (1) or more days.

Business Loans and Salary Loans
Those that are considered in default or 90 or more days past due, demonstrate objective evidence of impairment as of reporting date.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2022 and 2021:

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Due from BSP	**₱83,383,507**	**₱–**	**₱–**	**₱83,383,507**
Due from other banks	**1,216,729,377**	**–**	**–**	**1,216,729,377**
Loans receivable:				
Microfinance loans	**3,618,469,684**	**–**	**277,361,074**	**3,895,830,758**
Other loans	**592,234,636**	**1,043,004**	**22,253,629**	**615,531,269**
Other receivables:				
Accrued interest receivable	**117,492,322**	**–**	**–**	**117,492,322**
Accounts receivable	**4,550,200**	**–**	**–**	**4,550,200**
Investment securities at amortized cost	**83,769,670**	**–**	**–**	**83,769,670**
Other assets:				
Refundable rental deposits	**15,025,012**	**–**	**–**	**15,025,012**
	₱5,731,654,408	**₱1,043,004**	**₱299,614,703**	**₱6,032,312,115**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP	₱94,846,928	–	₱–	₱94,846,928
Due from other banks	1,719,052,126	–	–	1,719,052,126
Loans receivable:				
Microfinance loans	3,383,867,377	–	352,499,123	3,736,366,500
Other loans	486,575,985	827,322	23,030,339	510,433,647
Other receivables:				
Accrued interest receivable	100,136,885	–	–	100,136,885
Accounts receivable	2,638,722	–	–	2,638,722
Investment securities at amortized cost	19,853,863	–	–	19,853,863
Other assets:				
Refundable rental deposits	15,923,747	–	–	15,923,747
	₱5,822,895,633	₱827,322	₱375,529,462	₱6,199,252,418

As at December 31, 2022 and 2021, the Bank's microfinance loans that are past due for more than 90 days are considered impaired.

Carrying amount per class of loans and receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. No loans were restructured as at December 31, 2022 and 2021.

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The financial instruments of the Bank have fixed interest rates and are therefore not subject to any interest rate risk.

Interest rate risk
The Bank has floating or variable interest rates from held-to-maturity investments, however, management assessed that the Bank's exposure to changes in interest rate risk is immaterial.

Liquidity Risk
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Bank's Asset-Liability Committee is responsible for formulating the Bank's liquidity risk management policies. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding. Core deposits composed mainly of pledge savings.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Bank uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances.

The tables below summarize the maturity profile of the financial instruments of the Bank based on contractual undiscounted cash flows:

	2022					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	₱48,452,725	₱–	₱–	₱–	₱–	₱48,452,725
Due from BSP	83,383,507	–	–	–	–	83,383,507
Due from other banks	181,513,989	988,288,190	50,000,000	–	–	1,219,802,179
Loans and receivable*	227,021,489	232,033,409	749,185,086	3,412,914,055	12,250,510	4,633,404,549
Financial asset at amortized cost	–	–	24,261	422,441	83,937,754	84,384,456
Other assets	6,197,097	170,894	3,612,319	2,263,929	2,780,773	15,025,012
Total Financial Assets	546,568,807	1,220,492,493	802,821,666	3,415,600,425	98,969,037	6,084,452,428
Financial Liabilities						
Deposit liabilities	2,493,978,183	110,745,365	52,226,969	109,246,949	1,484,356,954	4,252,554,420
Other liabilities:						
Lease liabilities	–	68,781	251,758	9,944,558	120,584,200	130,849,297
Accounts payable	11,615,086	–	–	–	–	11,615,086
Accrued interest payable	29,978	85,675	126,308	37,685,258	133,397,333	171,324,552
Accrued other expenses	89,034	2,205,280	–	–	8,537,473	10,831,787
Dividends payable	159,547	–	–	–	–	159,547
Total Financial Liabilities	2,505,871,828	113,105,101	52,605,035	156,876,765	1,746,875,960	4,577,334,689
Net	(₱1,959,303,021)	₱ 1,107,387,392	₱750,216,631	₱3,258,723,660	(₱1,647,906,923)	₱1,507,117,739

**Includes future interest*

	2021					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱44,163,490	₱–	₱–	₱–	₱–	₱44,163,490
Due from BSP	94,846,928	–	–	–	–	94,846,928
Due from other banks	193,538,727	228,477,149	1,547,899,748	–	–	1,969,915,624
Loans and receivable	323,129,776	231,601,725	701,384,938	4,052,148,480	7,514,665	5,315,779,584
Financial asset at amortized cost	–	–	463,745	3,310,316	16,079,802	19,853,863
Other assets	6,181,297	707,787	1,294,219	3,711,844	4,058,600	15,953,747
Total Financial Assets	661,860,218	460,786,661	2,251,042,650	4,059,170,640	27,653,067	7,460,513,236
Financial Liabilities						
Deposit liabilities	2,338,797,546	844,550,824	215,576,638	305,993,934	950,078,547	4,654,997,489
Bills payable	–	–	100,000,000	300,000,000	–	400,000,000
Other liabilities:						
Lease liabilities	–	5,116,349	9,670,409	35,278,505	70,214,388	120,279,651
Accounts payable	2,688,156	4,500,667	–	–	–	7,188,823
Accrued interest payable	–	2,238,268	4,682,794	5,793,324	52,976,707	65,691,093
Accrued other expenses	3,147,627	–	–	–	9,645,468	12,793,095
Dividends payable	228,997	–	–	–	–	228,997
Total Financial Liabilities	2,344,862,326	856,406,108	329,929,841	647,065,763	1,082,915,110	5,261,179,148
Net	(₱1,683,002,108)	(395,619,447)	₱1,921,112,809	₱3,412,104,877	(1,055,262,043)	₱2,199,334,088

6. Due from BSP and Other Banks

The 'Due from BSP' account represents the balance of non-interest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements (Note 10) and to serve as a clearing account for interbank claims.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. These deposits earn interest at annual rates ranging from 0.05% to 5.25% and 0.03% to 1.25% in 2022 and 2021, respectively. Interest earned on due from other banks amounted to ₱31.41 million and ₱18.94 million in 2022 and 2021, respectively.

7. Loans and Receivables and Investment Securities at Amortized Cost

Loans and Receivables

This account consists of:

	2022	2021
Loans and receivables		
Microfinance loans	**₱3,895,830,758**	₱3,736,366,500
Other loans	**615,531,269**	510,433,646
	4,511,362,027	4,246,800,146
Accrued interest receivable	**117,492,322**	100,136,885
Accounts receivable (Note 19)	**4,550,200**	2,638,722
	4,633,404,549	4,349,575,753
Less: Allowance for credit losses	**349,471,450**	254,194,402
	₱4,283,933,099	₱4,095,381,351

Microfinance and other loans carry annual effective interest rates ranging from 0.46% to 92.86% and 0.05% to 99.89% in 2022 and 2021, respectively. Interest earned on loans and receivables amounted to ₱2.08 billion and ₱1.78 billion in 2022 and 2021, respectively.

The movements in the allowance for credit losses follow:

	2022	2021
Balance at beginning of year	**₱254,194,402**	₱217,035,396
Provisions	**201,672,692**	283,928,389
Write-offs	**(106,395,644)**	(246,769,383)
Balance at end of year	**₱349,471,450**	₱254,194,402

The tables below illustrate the movements of the allowance for impairment and credit losses during the year 2022 and 2021 (effect of movements in ECL due to transfers between stages are shown in the total column):

	2022			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance at January 1, 2022	**₱133,094,170**	**₱120,036**	**₱120,980,196**	**₱254,194,402**
Movements with P&L impact				
Transfer from Stage 1 to Stage 2	**(236,989)**	**236,989**	–	–
Transfer from Stage 1 to Stage 3	**(124,005,401)**	–	**124,005,401**	–
Transfer from Stage 2 to Stage 3	–	**(171,969)**	**171,969**	–
Transfer from Stage 3 to Stage 1	**7,790,986**	–	**(7,790,986)**	–
New financial assets originated or purchased	**45,188,906**	–	–	**45,188,906**
Changes in PDs/LGDs/EADs	**115,569,564**	**108,395**	**182,714,952**	**298,392,911**
Financial assets derecognized during the period	**(126,906,001)**	**(56,462)**	**(14,946,662)**	**(141,909,125)**
Total net P&L charge during the period	**(82,598,935)**	**116,953**	**284,154,674**	**201,672,692**
Other movements without P&L impact				
Write-offs and other movements	–	–	**(106,395,644)**	**(106,395,644)**
Total movements without P&L impact	–	–	**(106,395,644)**	**(106,395,644)**
Loss allowance at December 31, 2022	**₱50,495,235**	**₱236,989**	**₱298,739,226**	**₱349,471,450**

	2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2021	₱56,538,610	₱–	₱160,496,786	₱217,035,396
Movements with P&L impact				
Transfer from Stage 1 to Stage 2	(120,578)	120,578	–	–
Transfer from Stage 1 to Stage 3	(33,263,134)	–	33,263,134	–
Transfer from Stage 3 to Stage 1	1,480,066	–	(1,480,066)	–
New financial assets originated or purchased	162,147,590	–	–	162,147,590
Changes in PDs/LGDs/EADs	(2,773,484)	(542)	297,670,278	294,896,252
Financial assets derecognized during the period	(50,914,900)	–	(122,200,553)	(173,115,453)
Total net P&L charge during the period	76,555,560	120,036	207,252,793	283,928,389
Other movements without P&L impact				
Write-offs and other movements	–	–	(246,769,383)	(246,769,383)
Total movements without P&L impact	–	–	(246,769,383)	(246,769,383)
Loss allowance at December 31, 2021	₱133,094,170	₱120,036	₱120,980,196	₱254,194,402

The movements in gross carrying amount of receivables from customers between stages follow:

	2022			
	ECL Staging			
	Stage 1 **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
Microfinance loans				
Gross carrying amount as at January 1, 2022	**₱3,472,717,696**	**₱–**	**₱352,499,123**	**₱3,825,216,819**
Transfer from Stage 1 to Stage 3	**(254,302,741)**	**–**	**254,302,741**	**–**
Transfer from Stage 3 to Stage 1	**6,961,491**	**–**	**(6,961,491)**	**–**
New financial assets originated or purchased	**3,801,736,105**	**–**	**–**	**3,801,736,105**
Collection of principal and accrued interest	**(3,299,238,196)**	**–**	**(51,135,070)**	**(3,350,373,266)**
Financial assets derecognized during the period	**(3,710,936)**	**–**	**(172,764,059)**	**(176,474,995)**
Write-offs and other movements	**–**	**–**	**(98,580,170)**	**(98,580,170)**
	3,724,163,419	**–**	**277,361,074**	**4,001,524,493**
Other loans				
Gross carrying amount as at January 1, 2022	**497,862,551**	**827,322**	**23,030,339**	**521,720,212**
Transfer from Stage 1 to Stage 2	**(1,642,400)**	**1,642,400**	–	–
Transfer from Stage 1 to Stage 3	**(22,593,420)**	–	**22,593,420**	–
Transfer from Stage 2 to Stage 3		**(835,752)**	**835,752**	–
Transfer from Stage 3 to Stage 1	**292,355**		**(292,355)**	–
New financial assets originated or purchased	**613,542,997**	–	–	**613,542,997**
Collection of principal and accrued interest	**(478,533,584)**	**(285,563)**	**(7,394,390)**	**(486,213,537)**
Financial assets derecognized during the period	**(4,895,276)**	**(305,403)**	**(8,703,663)**	**(13,904,342)**
Write-offs and other movements	–	–	**(7,815,474)**	**(7,815,474)**
	604,033,223	**1,043,004**	**22,253,629**	**627,329,856**
Gross carrying amount as at December 31, 2022	**₱4,328,196,642**	**₱1,043,004**	**₱299,614,703**	**₱4,628,854,349**

	2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Microfinance loans				
Gross carrying amount as at January 1, 2021	₱3,072,578,303	₱–	₱500,041,630	₱3,572,619,933
Transfer from Stage 1 to Stage 3	(342,370,483)	–	342,370,483	–
Transfer from Stage 3 to Stage 1	4,896,595	–	(4,896,595)	–
New financial assets originated or purchased	3,440,166,027	–	76,572,285	3,516,738,312
Collection of principal and accrued interest	(2,702,552,746)	–	(342,050,819)	(3,044,603,565)
Financial assets derecognized during the period	–	–	–	–
Write-offs and other movements	–	–	(219,537,861)	(219,537,861)
	3,472,717,696	–	352,499,123	3,825,216,819
Other loans				
Gross carrying amount as at January 1, 2021	267,535,692	–	68,574,375	336,110,067
Transfer from Stage 1 to Stage 3	(10,065,987)	–	10,065,987	–
Transfer from Stage 3 to Stage 1	104,620	–	(104,620)	–
New financial assets originated or purchased	490,904,927	827,322	10,003,463	501,735,712
Collection of principal and accrued interest	(247,344,994)	–	(36,211,947)	(283,556,941)
Financial assets derecognized during the period	(3,271,707)	–	(2,065,397)	(5,337,104)
Write-offs and other movements	–	–	(27,231,522)	(27,231,522)
	497,862,551	827,322	23,030,339	521,720,212
Gross carrying amount as at December 31, 2021	₱3,970,580,247	₱827,322	₱375,529,462	₱4,346,937,031

While the Bank recognizes through the statements of income the movements in the expected credit losses computed using the ECL models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring to at least 1% the allowance for credit losses on loans.

Generally, NPLs refer to loans whose principal and/or interest are unpaid after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans receivable in lump sum and loans receivable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance. In the case of microfinance loans, past due/PAR accounts shall be considered as NPL. Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest is doubtful. Loans are not reclassified as performing until interest and principal payments are brought to current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2022 and 2021 (at gross amount):

	2022	2021
Secured portion		
Deposit hold-out	**₱1,027,121,337**	₱1,005,556,529
Unsecured portion	**3,484,240,690**	3,241,243,617
	₱4,511,362,027	₱4,246,800,146

Collateral of loans includes deposit hold-out at 15.00% of loan disbursed (Note 10).

Investment securities at Amortized Cost

As at December 31, 2022 and 2021, investment securities at amortized cost consist of the following:

	2022	2021
Agrarian Reform 10-year bond	**₱23,769,670**	₱19,853,863
Government debt securities	**60,000,000**	–
	₱83,769,670	₱19,853,863

Agrarian reform bonds pertain to long-term certificates issued by the National Government and earn annual interest rates from 4.31% to 5.50% and 0.87% to 1.34% in 2022 and 2021, respectively.

The government debt securities are quoted debt securities that earn nominal and effective interest rates ranging from 5.75% to 7.00% in 2022 and will mature between five (5) years and six (6) years from the statement of financial position date.

Interest income on investment securities at amortized cost amounted to ₱1.61 million and ₱0.36 million in 2022 and 2021, respectively.

8. Property and Equipment

The composition of and movements in this account follow:

	2022								
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Right-of-Use Asset	Total
Cost									
Balance at beginning of year	**₱20,030,959**	**₱31,761,722**	**₱99,074,319**	**₱30,934,682**	**₱4,871,355**	**₱108,193,811**	**₱12,063,626**	**₱221,061,746**	**₱527,992,220**
Additions	–	–	**11,714,327**	**4,879,574**	**494,900**	**3,878,995**	**15,530,994**	**79,732,833**	**116,231,622**
Reclassification	–	–	–	–	–	**20,440,131**	**(20,440,131)**	–	–
Disposals	–	–	**(600,835)**	**(15,235)**	**(61,936)**	**(1,033,600)**	–	**(56,204,505)**	**(57,916,111)**
Balance at end of year	**20,030,959**	**31,761,722**	**110,187,811**	**35,799,021**	**5,304,319**	**131,479,337**	**7,154,489**	**244,590,073**	**586,307,731**
Accumulated Depreciation									
Balance at beginning of year	–	**19,027,829**	**65,146,975**	**17,181,353**	**1,676,926**	**68,255,660**	–	**102,702,575**	**273,991,318**
Depreciation	–	**3,815,307**	**14,089,080**	**5,188,442**	**1,006,201**	**21,923,937**	–	**64,358,676**	**110,381,643**
Disposals	–	–	**(600,835)**	**(15,235)**	**(26,839)**	**(1,033,600)**	–	**(56,204,504)**	**(57,881,014)**
Balance at end of year	–	**22,843,136**	**78,635,220**	**22,354,560**	**2,656,288**	**89,145,997**	–	**110,856,746**	**326,491,947**
Net Book Value	**₱20,030,959**	**₱8,918,586**	**₱31,552,591**	**₱13,444,461**	**₱2,648,031**	**₱42,333,340**	**₱7,154,489**	**₱133,733,327**	**₱259,815,784**

	2021								
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Right-of-Use Asset	Total
Cost									
Balance at beginning of year	₱20,030,959	₱32,670,163	₱85,940,503	₱26,984,129	₱4,641,687	₱99,672,002	₱6,352,506	₱196,121,823	₱472,413,772
Additions	–	–	15,568,495	4,076,552	437,550	367,132	17,483,397	58,849,048	96,782,174
Reclassification	–	3,617,600	–	–	–	8,154,677	(11,772,277)	–	–
Disposals	–	(4,526,041)	(2,434,679)	(125,999)	(207,882)	–	–	(33,909,125)	(41,203,726)
Balance at end of year	20,030,959	31,761,722	99,074,319	30,934,682	4,871,355	108,193,811	12,063,626	221,061,746	527,992,220
Accumulated Depreciation									
Balance at beginning of year	–	18,176,891	51,158,823	12,178,066	977,860	47,759,575	–	75,887,837	206,139,052
Depreciation	–	3,604,280	15,387,720	5,080,789	906,949	20,496,085	–	60,723,863	106,199,686
Disposals	–	(2,753,342)	(1,399,568)	(77,502)	(207,883)	–	–	(33,909,125)	(38,347,420)
Balance at end of year	–	19,027,829	65,146,975	17,181,353	1,676,926	68,255,660	–	102,702,575	273,991,318
Net Book Value	₱20,030,959	₱12,733,893	₱33,927,344	₱13,753,329	₱3,194,429	₱39,938,151	₱12,063,626	₱118,359,171	₱254,000,902

The composition of depreciation and amortization as presented in the statements of income are as follows:

	2022	2021
Property and equipment	**₱110,381,643**	₱106,199,686
Intangible assets (Note 9)	**2,714,025**	2,215,364
	₱113,095,668	₱108,415,050

Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation.

As at December 31, 2022, the leasehold improvements under construction pertains to the renovation of bank premises of Taytay and Surigao branches that are completed in the first quarter of 2023. As at December 31, 2021, the leasehold improvements under construction pertains to the renovation of bank premises of Head Office, Antipolo, Dumaguete and Tanay branches.

As of December 31, 2022 and 2021, the cost of fully depreciated property and equipment that are still in use amounted to ₱105.53 million and ₱60.33 million, respectively.

9. Other Assets

This account consists of:

	2022	2021
Financial assets		
Refundable rental deposits	**₱15,025,012**	₱15,923,747
Nonfinancial assets		
Prepaid expenses	**66,460,884**	60,366,406
Stationery and supplies on hand	**26,848,900**	26,816,545
Prepaid rent	**5,972,127**	4,117,808
Intangible asset	**3,065,634**	5,779,660
Creditable withholding tax	–	855
	102,347,545	97,081,274
	₱117,372,557	₱113,005,021

Prepaid expenses include advance payments for IT services from FDS Asya Philippines Inc. (FDSAP). Prepaid rent pertains to advances paid on lease of offices and advance lease payments of office and IT equipment from CARD Leasing and Finance Corporation (CLFC).

No impairment loss was recognized on other assets in 2022 and 2021.

Intangible assets
Intangible assets include software costs under development and purchased licenses.

The movements of intangible assets follow:

	2022	2021
Cost		
Balance at beginning of year	**₱8,142,078**	₱5,293,977
Additions	–	2,848,102
Balance at end of year	**8,142,078**	8,142,079
Accumulated amortization		
Balance at beginning of year	**2,362,419**	147,055
Amortization (Note 8)	**2,714,025**	2,215,364
Balance at end of year	**5,076,444**	2,362,419
Net Book Value	**₱3,065,634**	₱5,779,660

10. **Deposit Liabilities**

The Bank's deposit liabilities include regular savings amounting to ₱3.88 billion and ₱3.87 billion as at December 31, 2022 and 2021, respectively. These mostly comprise of the ₱50.00 per week aggregate compulsory savings collected from each member/nonmember/borrower plus any voluntary deposit. Under an assignment agreement, the "pledge" savings balances serve as security for loans granted by the Bank to its members. The "pledge" savings earn annual interest of 2.00% in 2022 and 2021. In 2022 and 2021, a member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7).

Other regular savings accounts are "Kusang-ipon", "Tagumpay", "Agap-ipon" and "Katuparan" savings deposit accounts which cater to non-members and Bank employees and carry interest rates from 0.50% and 5.00% and from 1.50% and 5.00% in 2022 and 2021, respectively.

Special savings deposits have interest rates ranging from 1.00% to 1.75% and from 1.00% to 4.00% in 2022 and 2021, respectively.

Interest expense on deposit liabilities are as follows:

	2022	2021
Regular savings deposits	**₱175,982,245**	₱115,992,219
Special savings deposit	**8,099,070**	24,096,280
Balance at end of year	**₱184,081,315**	₱140,088,499

Circular No. 1092 of the BSP prescribes 2.00% reserve requirements on demand and savings deposits. As of December 31, 2022 and 2021, available reserves pertain to Due from BSP of ₱83.38 million and ₱94.85 million, respectively (Note 6). The Bank is compliant with the applicable reserve requirements on demand and savings deposits, respectively.

11. Bills Payable and Other Liabilities

Bills Payable
Bills payable represents borrowings from financing institutions which are subject to certain terms and conditions and bears annual nominal interest rates of 2.50%. The outstanding bills payable as of December 31, 2021 was settled in 2022.

Interest expense recognized in the statements of income amounted to ₱6.20 million and ₱10.09 million in 2022 and 2021, respectively.

The composition of and movements in this account follow:

	2022	2021
Face value		
Balance at beginning of year	**₱400,000,000**	₱862,500,000
Availments	–	400,000,000
Principal payments	**(400,000,000)**	(862,500,000)
Balance at end of year	–	400,000,000
Unamortized transaction cost		
Balance at beginning of year	**2,633,826**	4,830,359
Availments	–	2,958,904
Amortization	**(2,633,826)**	(5,155,438)
Balance at end of year	–	2,633,826
Carrying value	**₱–**	₱397,366,174

Other Liabilities
This account consists of the following:

	2022	2021
Financial liabilities:		
Accrued interest payable	**₱171,324,552**	₱65,691,093
Lease liabilities (Note 16)	**134,849,298**	120,279,650
Accrued other expenses	**10,831,787**	12,793,095
Accounts payable (Note 19)	**11,615,086**	7,188,824
Dividends payable	**159,547**	228,997
	328,780,270	206,181,659
Nonfinancial liabilities:		
Gross receipt taxes payable	**28,677,887**	25,121,174
Documentary stamp taxes payable	**3,597,987**	3,296,845
Withholding taxes payable	**4,041,908**	3,835,368
	36,317,782	32,253,387
	₱365,098,052	₱238,435,046

Accounts payable include due to suppliers and contractors, regulatory bodies, employees and related parties.

Accrued other expenses include accrued rent and other operating expenses.

12. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statement of financial position dates:

	2022			2021		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱48,452,725**	**₱–**	**₱48,452,725**	₱44,163,490	₱–	₱44,163,490
Due from BSP	**83,383,507**	**–**	**83,383,507**	94,846,928	–	94,846,928
Due from other banks	**1,216,729,377**	**–**	**1,216,729,377**	1,719,052,126	–	1,719,052,126
Loans and receivables	**4,621,154,039**	**12,250,510**	**4,633,404,549**	4,343,711,298	5,864,455	4,349,575,753
Investment securities at amortized cost	**4,804,465**	**78,965,205**	**83,769,670**	86,452	19,767,411	19,853,863
Other assets (Note 9)	**12,244,239**	**2,780,773**	**15,025,012**	11,865,147	4,058,600	15,923,747
Nonfinancial Assets						
Property and equipment	**–**	**586,307,731**	**586,307,731**	–	527,992,220	527,992,220
Retirement asset	**–**	**24,619,373**	**24,619,373**	–	4,952,981	4,952,981
Deferred tax assets	**–**	**85,522,505**	**85,522,505**	–	68,036,718	68,036,718
Other assets (Note 9)	**99,281,911**	**3,065,634**	**102,347,545**	87,182,950	9,898,324	97,081,274
	₱6,086,050,263	**₱793,511,731**	**6,879,561,994**	₱6,300,908,391	₱640,570,709	6,941,479,100
Allowance for credit and impairment losses			**(349,471,450)**			(254,194,402)
Accumulated depreciation and amortization			**(326,491,947)**			(273,991,318)
			₱6,203,598,597			₱6,413,293,380
Financial Liabilities						
Deposit liabilities	**₱4,068,308,350**	**₱164,756**	**₱4,068,473,106**	₱3,702,071,165	₱749,956,761	₱4,452,027,926
Bills payable	**–**	**–**	**–**	397,366,174	–	397,366,174
Other liabilities (Note 11)	**161,555,947**	**167,224,323**	**328,780,270**	73,345,096	132,836,563	206,181,659
Deposit for future stock subscription	**–**	**–**	**–**	69,174,000	–	69,174,000
Nonfinancial Liabilities						
Income tax payable	**53,242,899**	**–**	**53,242,899**	15,032,570	–	15,032,570
Other liabilities (Note 11)	**36,317,782**	**–**	**36,317,782**	32,253,387	–	32,253,387
	₱4,319,424,978	**₱167,389,079**	**₱4,486,814,057**	₱4,289,242,392	₱882,793,324	₱5,172,035,716

13. Equity

Capital Stock

The Bank's authorized capital stock amounted to ₱2.00 billion, consisting of 18,000,000 shares of common stock with par value of ₱100 per share and 1,000,000 private preferred shares with par value of ₱200 per share.

As at December 31, 2022 and 2021, the Bank's capital stock consists of:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Common stock - ₱100 par value, 18,000,000 authorized shares				
Common stock at the beginning of the year	**8,000,000**	**₱800,000,000**	7,482,227	₱748,222,700
Application of DFS subscription to issued shares	**691,740**	**69,174,000**	–	–
Issuance of shares	**1,201,130**	**120,113,000**	181,578	18,157,800
Issuance of stock dividend	**–**	**–**	364,999	36,499,900
	9,892,870	**989,287,000**	8,000,000	₱800,000,000
Subscribed shares	**607,130**	**60,713,000**	–	–
Subscription receivable	**–**	**(43,580,300)**	–	–
Common stock at the end of the year	**10,500,000**	**₱1,006,419,700**	8,000,000	₱800,000,000

	2022		2021	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value, 1,000,000 authorized shares				
Preferred stock at the beginning of the year	**1,000,000**	**₱200,000,000**	549,363	₱109,872,600
Issuance of shares	–	–	450,637	90,127,400
Preferred stock at the end of the year	**1,000,000**	**₱200,000,000**	1,000,000	₱200,000,000

Preferred shares have the following features: (a) cumulative, (b) non-voting, and (c) non-redeemable. Preferred shareholders shall be entitled to a dividend rate of eight percent (8.00%) per annum or whatever is determined by the BOD. As of December 31, 2022 and 2021, cumulative dividends paid on preferred shares amounted to ₱18.00 million and ₱16.51 million, respectively.

Deposit for Future Stock Subscriptions
Deposit for future stock (DFS) subscription pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares.

Financial Reporting Bulletin No. 6, dated January 24, 2013 provides that a bank shall classify a contract to deliver its own equity instruments under equity as a separate account from capital stock if and only if, all of the following elements are present as of the reporting period:

1. The unissued authorized capital of the Bank is insufficient to cover the amount of shares indicated in the contract;
2. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
3. There is stockholders' approval of the said proposed increase; and
4. The application for the approval of the proposed increase has been filed with the SEC.

The application of the proposed increase in authorized capital was approved by the Board on September 11, 2021 and was filed with the SEC on November 24, 2021. The SEC approved the said increase on June 14, 2022.

Dividends
Cash dividends declared by the Bank in 2022 and 2021 are the following:

	Common shares		Preferred shares		
Date of declaration	Per share	Total amount	% of Par	Total amount	Record date
November 12, 2022	₱3.00	₱31.50 million	1.00%	₱2.00 million	September 30, 2022
April 9, 2022	₱10.00	₱80.00 million	8.00%	₱16.00 million	March 31, 2022
November 13, 2021	₱5.00	₱40.00 million	8.00%	₱7.73 million	October 31, 2021
May 8, 2021	₱9.00	₱68.72 million	8.00%	₱8.79 million	April 30, 2021

As approved by the Banks's BOD and stockholders in their joint special meeting on June 12, 2021, stock dividends amounting to ₱36.50 million or ₱4.78 per share was declared to stockholders on record as of May 31, 2021.

Capital Management

The Bank's capital management aims to ensure that it complies with regulatory capital requirements and maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Bank manages its capital structure and appropriately effect adjustment according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations.

In order to maintain or adjust for good capital structure, the Bank carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary. No changes were made on the capital management objectives, policies and processes from previous years.

Regulatory Qualifying Capital

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

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole.

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

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

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

Under BSP Circular No. 360, effective July 1, 2003, the risk-based capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks with head offices in areas outside the National Capital Region and with up to ten branches are required to comply with the minimum capital requirement of ₱30.00 million. As at December 31, 2022 and 2021, the Bank is in compliance with the capitalization requirement.

Under BSP Circular No. 854, regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, surplus including current year profit less accrued dividends, net long positions in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP.

The CAR of the Bank as at December 31, 2022 and 2021, as reported to the BSP, is shown in the table below (amounts in millions):

	2022	2021
Tier 1 capital	**₱1,427.24**	₱982.49
Tier 2 capital	**242.12**	257.91
Total qualifying capital	**₱1,669.36**	₱1,240.40
Risk weighted assets	**₱7,629.69**	₱7,582.88
Tier 1 capital ratio	**18.71%**	12.96%
Tier 2 capital ratio	**3.17%**	3.40%
Total CAR	**21.88%**	16.36%

As of December 31, 2022 and 2021, the Bank's CAR is in compliance with the regulatory requirements.

Liquidity Coverage Ratio for universal and commercial banks, which also applies to their subsidiary and affiliate thrift banks (TBs), rural banks (RBs), cooperative banks (CBs), and quasi-banks (QBs) is 90% beginning January 1, 2018 and 100% beginning January 1, 2019 onwards. Meanwhile, stand-alone TBs, RBs, CBs, and QBs will be subjected to a Minimum Liquidity Ratio (MLR) of 20% for 2022 and 2021.

The Bank's MLR as at December 31, 2022 and 2021, as reported to the BSP is shown in the table below (amounts in millions):

	2022	2021
Stock of liquid assets	**₱1,348.57**	₱1,858.06
Qualifying liabilities	**3,305.30**	3,626.27
MLR	**40.80%**	51.24%

As at December 31, 2022 and 2021, the Bank's MLR is in compliance with the regulatory requirement.

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

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

Covered banks and quasi-banks are enjoined to consider the forthcoming regulatory changes in capital planning exercises and conduct preliminary assessments of the likely impact of the changes.

14. **Compensation and Benefits**

This account consists of:

	2022	2021
Salaries and wages	**₱248,499,282**	₱244,772,597
Employee benefits	**185,946,688**	154,926,274
Retirement expense (Note 15)	**12,441,087**	10,377,657
Other short-term benefits	**31,872,539**	30,772,880
	₱478,759,596	₱440,849,408

Other short-term benefits pertain to the Bank's share in contribution to employee's SSS, and health benefit plans.

15. **Retirement Plan**

The Bank, CARD Bank, Inc., CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., CMIT, CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co., BotiCARD Inc., CLFC, CARD, Inc., Mga Likha ni Inay Inc., CARD MRI Property Holdings Inc., CARD MRI Publishing House Inc. and CARD MRI Hijos Tours Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (New Plan) applicable to employees hired on or after July 1, 2016. MERP and New Plan comply with the requirements of Republic Act No. 7641, *Retirement Pay Law.*

MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties. MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

In addition to MERP, the Bank is also a participant to the CARD Group Employees' Retirement Plan referred to as "New Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value (the Bank's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

The date of the latest actuarial valuation report is December 31, 2022.

Changes in net retirement asset in 2022 and 2021 are as follow:

	2022												
		Net benefit cost in statement of income					**Remeasurements in other comprehensive income**						
	January 1	**Current service cost**	**Net interest**	**Subtotal**	**Transfer to the Plan Net of Benefits Paid**	**Benefits paid from plan assets**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in the effect of asset ceiling**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31**
Fair value of plan assets	**₱140,569,192**	**₱–**	**₱7,339,596**	**₱7,339,596**	**₱1,265,257**	**(₱4,513,469)**	**(₱1,540,318)**	**₱–**	**₱–**	**₱–**	**(₱4,788,530)**	**₱7,142,681**	**₱150,262,939**
Present value of defined benefit obligation	**(135,361,133)**	**(12,796,448)**	**(6,971,098)**	**(19,767,546)**	**(1,265,257)**	**4,513,469**	**(6,306,114)**	**–**	**2,126,065**	**33,803,583**	**32,871,746**	**–**	**(122,256,933)**
Asset ceiling	**(255,078)**	**–**	**(13,137)**	**(13,137)**	**–**	**–**	**–**	**(3,118,418)**	**–**	**–**	**(3,118,418)**	**–**	**(3,386,633)**
Net defined benefit asset	**₱4,952,981**	**(₱12,796,448)**	**₱355,361**	**(₱12,441,087)**	**₱–**	**₱–**	**(₱7,846,432)**	**(₱3,118,418)**	**₱2,126,065**	**₱33,803,583**	**₱24,964,798**	**₱7,142,681**	**₱24,619,373**

	2021												
		Net benefit cost in statement of income					Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Transfer to the Plan Net of Benefits Paid	Benefits paid from plan assets	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31
Fair value of plan assets	₱132,244,879	₱–	₱5,340,552	₱5,340,552	₱1,925,545	(₱3,723,848)	(₱223,316)	₱–	₱–	₱–	(₱2,021,619)	₱5,005,380	₱140,569,192
Present value of defined benefit obligation	(111,778,257)	(11,213,302)	(4,459,952)	(15,673,254)	(1,925,545)	3,723,848	3,118,594	–	921,341	(13,747,860)	(7,909,622)	–	(135,361,133)
Asset ceiling	(1,126,704)	–	(44,955)	(44,955)	–	–	–	916,581			916,581	–	(255,078)
Net defined benefit asset	₱19,339,918	(₱11,213,302)	₱835,645	(₱10,377,657)	₱–	₱–	₱2,895,278	₱916,581	₱921,341	(₱13,747,860)	(₱9,014,660)	₱5,005,380	₱4,952,981

In 2022 and 2011, net benefit cost is recognized under ‘Compensation and benefits’ in the statements of income.

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The fair value of plan assets by each class as at December 31, 2022 and 2021 follows:

	2022	2021
Cash and cash equivalents	**₱24,628,096**	₱57,267,889
Government securities	**103,155,508**	60,374,468
Loans and receivables	**12,607,061**	7,843,761
Other bond instruments	**7,813,673**	3,190,921
Other assets	**2,058,601**	11,892,153
Fair value of plan assets	**₱150,262,939**	₱140,569,192

All plan assets do not have quoted prices in an active market except for government bonds and mutual fund. Cash and cash equivalents are with reputable financial institutions and related parties and are deemed to be standard grade. Loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk other than those in government securities which are of low risk.

The overall investment policy and strategy of the Bank's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2022	2021
Discount rate		
January 1	**5.15%**	3.99%
December 31	**7.30%**	5.15%
Future salary increases	**5.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	2022		2021	
	Increase (decrease) in basis points	**Increase (decrease) in present value of obligation**	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rates	**+100**	**(₱11,866,351)**	+100	(₱15,794,472)
	(100)	**14,105,087**	(100)	19,182,356
Future salary increases	**+100**	**14,294,100**	+100	19,012,832
	(100)	**(12,211,203)**	(100)	(15,952,944)

The Bank plans to contribute ₱15.00 million to the defined benefit retirement plan in 2023. As at December 31, 2022, the average duration of defined benefit obligations is 10.6 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2022	2021
Less than one year	**₱9,498,288**	₱7,473,106
More than one year to five years	**49,550,707**	41,274,415
More than five years to ten years	**67,919,462**	60,999,540
More than 10 years to 15 years	**91,066,375**	86,656,010
More than 15 years to 20 years	**132,092,465**	121,539,731
More than 20 years to 25 years	**207,286,444**	176,382,732
More than 25 years	**375,024,908**	413,881,050

16. **Leases**

The Bank has lease contracts for various items of office space for its branches and staff house, transportation, and IT equipment used in its operations. The lease contracts are for periods ranging from six months to 12 years and are renewable upon mutual agreement between the Bank and lessors. Various lease contracts include escalation clauses of 5.00%, starting on the year stated in the contract.

The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets and some contracts require the Bank to maintain certain financial ratios.

The carrying amounts of right-of-use assets recognized and the movements during the period are disclosed in Note 8.

The following are the amounts recognized in statements of income:

	2022	2021
Lease payments relating to short-term leases and leases with low value assets (included in 'Rent')	**₱30,084,368**	₱39,044,659
Depreciation expense of ROU assets included in property and equipment (Note 8)	**64,358,676**	60,723,863
Interest expense on lease liabilities	**6,332,496**	6,589,545
Total amount recognized in the statements of income	**₱100,775,540**	₱106,358,067

Rent expense in 2022 and 2021 pertains to expenses from short-term leases and leases of low-value assets. As of December 31, 2022, and 2021, the Bank has no contingent rent payable.

Set out below are the carrying amounts of lease liabilities (included under other liabilities) and the movements during the period:

	2022	2021
As at beginning of year	**₱120,279,650**	₱121,216,150
Additions	**76,320,879**	57,075,496
Accretion of interest	**6,332,496**	6,589,545
Payments	**(68,083,727)**	(64,601,541)
As at end of year	**₱134,849,298**	₱120,279,650

Shown below is the maturity analysis of the undiscounted lease payments:

	2022	2021
Within 1 year	**₱58,661,941**	₱54,829,367
More than 1 year to 2 years	**37,946,555**	32,607,248
More than 2 years to 3 years	**22,745,968**	18,958,755

17. **Miscellaneous Expenses**

This account consists of:

	2022	2021
Repairs and maintenance	**₱7,532,370**	₱5,797,623
Payments to on-call security, drivers and messengerial	**6,921,534**	1,392,365
Meals during meetings and trainings	**3,602,255**	1,158,376
Legal fees	**2,993,998**	1,094,523
Periodicals and magazines	**1,409,004**	906,071
Banking fee	**1,188,479**	1,191,731
Company events and celebrations	**853,477**	999,595
Marketing, advertising and publicity	**767,266**	1,092,217
Data information sharing fee	**723,958**	283,384
Review and advisory fee	**618,000**	–
Vaccination	**496,778**	3,651,463
Recruitment and training expenses	**362,232**	420,013
Calamity and burial assistance	**361,680**	476,350
Scholarship allowance	**309,555**	1,053,158
Covid-19 preventive measures and quarantine expenses	**151,629**	419,616
Processing fee of approved branches	**101,748**	83,866
Membership fees and dues	**93,759**	236,560
Hospitalization and other medical expense	**8,148**	632,564
Cleaning materials, repairs and recovery	**–**	1,016,123
Collection expense	**–**	644,849
Losses from fire incident	**–**	415,656
Other expenses	**697,115**	949,266
	₱29,192,985	₱23,915,369

COVID-19 preventive measures include cost of quarantine facilities, transportation, meals during quarantine period, vitamins for employees, disinfection of office premises, others.

Vaccination expenditures which include cost of flu vaccines for employees.

Other expenses include various expenses such as replenishment of emergency fund, representation and entertainment expenses, awards to top performing branches and staffs, and other small value expenses that are non-recurring.

18. **Income Taxes**

Provision for income tax consists of:

	2022	2021
Current tax	**₱144,979,444**	₱51,711,951
Final tax	**6,076,563**	3,746,003
Deferred tax	**(23,726,986)**	4,308,523
	₱127,329,021	₱59,766,477

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

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

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. EAR expenses are presented under 'Miscellaneous expenses' in the statements of income. The Bank incurred no EAR expenses in 2022 and 2021.

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

	2022	2021
Deferred tax assets		
Allowance for credit losses	**₱87,367,863**	₱63,548,601
Unamortized past service cost	**2,175,117**	2,834,876
Accumulated vacation leave	**2,134,368**	2,411,367
Net lease liabilities over right-of-use assets	–	480,120
	91,677,348	70,040,426
Deferred tax liability		
Retirement asset	**6,154,843**	1,238,245
	₱85,522,505	₱68,036,718

Deferred tax recognized in OCI amounted ₱6.24 million (debit) and ₱1.67 million (credit) for the years ended December 31, 2022 and 2021, respectively.

In 2022, the Bank did not recognize the deferred tax assets on net lease liabilities over right of use assets amounting to ₱1.12 million.

The reconciliation between the statutory income tax and effective income tax follow:

	2022	2021
Statutory income tax	**₱126,803,150**	₱50,514,461
Income tax effects of:		
Interest income subject to final tax	**(2,178,639)**	(1,078,208)
Nondeductible expenses	**2,704,510**	2,066,275
Changes in income tax rate (CREATE law)		
Current tax expense	**–**	(3,352,509)
Deferred tax expense	**–**	11,191,746
Provision for income tax	**₱127,329,021**	₱59,766,477

19. Related Party Transactions

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

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

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

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings accounts and government bonds (Note 15). As at December 31, 2022 and 2021, the retirement funds do not hold or trade the Bank's shares of stock.

Remunerations of Key Management Personnel

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

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

	2022	2021
Short-term employee benefits	**₱14,746,185**	₱13,990,104
Post-employment benefits	**1,515,816**	1,803,781
	₱16,262,001	₱15,793,885

The Bank also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables that follow.

Other Related Party Transactions
Transactions between the Bank and its key management personnel meet the definition of related party transactions. Transactions between the Bank and related parties within the CARD-MRI, also qualify as related party transactions.

Loans receivable
As of December 31, 2022 and 2021, the Bank has no outstanding loan that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable
Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2022 and 2021 follow:

	December 31, 2022		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Deposit liabilities		**₱12,659,370**	Consists of regular savings deposit account with annual interest rate of 0.50% and 5.00%, and special savings deposit account with annual interest rate ranging from 1.00% to 4.25%.
Deposits	**₱25,760,457**		
Withdrawals	**25,359,961**		
Interest expense/payable	**422,004**		
Shareholders			
Deposit liabilities		**153,689,020**	Consists of regular savings deposit account with annual interest rate of 0.50% and special savings deposit account with annual interest rate ranging from 1.60% to 4.0%.
Deposits	**844,645,503**		
Withdrawals	**814,383,510**		
Interest expense/payable	**1,610,298**		
Accounts receivable		–	Pertains to shareholders' non-trade payable (*e.g.* share of expenses) still due to the Bank
Billings	**4,844,723**		
Collection	**4,844,723**		
Accounts payable		–	Pertains to share on various expenses.
Billings	**707,782**		
Payment	**707,782**		

	December 31, 2021		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱11,836,871	Consists of regular savings deposit account with annual interest rate of 0.50% and 5.00%, and special savings deposit account with annual interest rate ranging from 1.00% to 4.25%.
Deposits	₱25,760,457		
Withdrawals	25,359,961		
Interest expense/payable	423,466		
Shareholders			
Deposit liabilities		121,816,729	Consists of regular savings deposit account with annual interest rate of 0.50% and special savings deposit account with annual interest rate ranging from 1.60% to 4.0%.
Deposits	512,281,097		
Withdrawals	555,665,695		
Interest expense/payable	4,014,873		
Accounts receivable		–	Pertains to shareholders' non-trade payable (*e.g.* share of expenses) still due to the Bank
Billings	4,128,413		
Collection	4,214,887		
Accounts payable		–	Pertains to share on various expenses.
Billings	679,038		
Payment	679,470		

20. **Supplementary Information for Cash Flow Analysis**

Non-cash investing activities of the Bank consist of the following:

	2022	2021
Additions to property and equipment through lease contracts (Note 8)	**₱79,732,833**	₱58,849,048

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2022 and 2021, respectively.

	December 31, 2022					
	Bills payable (Note 11)	**Deposit for future stock subscription** (Notes 13)	**Dividends payable** (Note 11)	**Lease liabilities** (Note 16)	**Capital stock** (Note 13)	**Total**
Balances as at January 1, 2022	**₱397,366,174**	**₱69,174,000**	**₱228,997**	**₱120,279,650**	**₱1,000,000,000**	**₱1,587,048,821**
Cash flows	**(400,000,000)**	**–**	**(129,569,450)**	**(68,083,727)**	**137,245,700**	**(460,407,477)**
Non-cash items						
Application of DFS to equity	**–**	**(69,174,000)**	**–**	**–**	**69,174,000**	**–**
Dividend declaration	**–**	**–**	**129,500,000**	**–**	**–**	**129,500,000**
New lease contracts entered during the year	**–**	**–**	**–**	**76,320,879**	**–**	**76,320,879**
Amortization of discount of bills payable	**2,633,826**	**–**	**–**	**–**	**–**	**2,633,826**
Amortization of interest expenses of lease liability	**–**	**–**	**–**	**6,332,496**	**–**	**6,332,496**
Balances as of December 31, 2022	**₱–**	**₱–**	**₱159,547**	**₱134,849,298**	**₱1,206,419,700**	**₱1,341,428,545**

	December 31, 2021					
	Bills payable (Note 11)	Deposit for future stock subscription (Notes 13)	Dividends payable (Note 11)	Lease Liabilities (Note 16)	Capital stock (Note 13)	Total
Balances as at January 1, 2021	₱857,669,641	₱–	₱373,286	₱121,216,150	₱858,095,300	₱1,837,354,377
Cash flows	(465,458,904)	69,174,000	(125,374,250)	(64,601,541)	105,404,800	(480,855,895)
Non-cash items						
Dividend declaration	–	–	125,229,961	–	–	125,229,961
New lease contracts entered during the year	–	–	–	57,075,496	–	57,075,496
Amortization of discount of bills payable	5,155,438	–	–	–	–	5,155,438
Amortization of interest expenses of lease liability	–	–	–	6,589,545	–	6,589,545
Declaration of stock dividends	–	–	–	–	36,499,900	36,499,900
Balances as of December 31, 2021	₱397,366,175	₱69,174,000	₱228,997	₱120,279,650	₱1,000,000,000	₱1,587,048,822

21. Approval for the Release of Financial Statements

The BOD of the Bank has reviewed and approved the release of the accompanying financial statements on April 28, 2023.

22. Supplementary Information Required under Section 174 of the Manual of Regulations for Banks (MORB)

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular No. 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Basic quantitative indicators of financial performance
The following basic ratios measure the financial performance of the Bank:

	2022	2021
Return on average equity	**25.68%**	12.17%
Return on average assets	**6.02%**	2.25%
Net interest margin	**34.10%**	28.67%

Description of capital instruments issued
As of December 31, 2022 and 2021, the Bank has two classes of capital stock, preferred and common stocks.

Significant credit exposures
The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled.

As at December 31, 2022 and 2021, information on the concentration of receivables from customers as to industry follows (at gross amount):

	2022		2021	
	Amount	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱2,351,791,233**	**52.13%**	₱2,339,485,714	55.09%
Agriculture, hunting, forestry and fishing	**851,115,037**	**18.87%**	611,305,703	14.39%
Administrative and support service activities	**288,998,830**	**6.41%**	195,994,637	4.62%
Real estate activities	**193,363,376**	**4.29%**	159,967,738	3.77%
Manufacturing	**171,119,136**	**3.79%**	176,250,083	4.15%
Construction	**151,274,745**	**3.35%**	272,009,871	6.41%
Accommodation and food service activities	**130,578,250**	**2.89%**	124,877,972	2.94%
Human health and social work activities	**101,497,422**	**2.25%**	65,466,237	1.54%
Arts, entertainment and recreation	**81,938,418**	**1.82%**	80,132,133	1.89%
Education	**46,912,744**	**1.04%**	37,471,172	0.88%
Transportation and storage	**34,683,610**	**0.77%**	45,406,124	1.07%
Professional, scientific and technical services	**20,147,355**	**0.45%**	16,961,784	0.40%
Information and communication	**18,062,620**	**0.40%**	23,373,893	0.55%
Water supply, sewerage, waste management and remediation activities	**4,818,680**	**0.11%**	4,109,298	0.10%
Other services activities	**65,060,571**	**1.43%**	93,987,789	2.20%
	₱4,511,362,027	**100.00%**	₱4,246,800,146	100.00%

Loans per security
The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2022 and 2021 (at gross amount):

	2022	2021
Secured portion		
Deposit hold-out	**₱979,408,495**	₱1,005,556,529
Unsecured portion	**3,531,953,532**	3,241,243,617
	₱4,511,362,027	₱4,246,800,146

Collateral of loans includes deposit hold-out at 15.00% of loan disbursed (Note 10).

Status of loans per product line
Information on the amounts of performing and NPL receivables (gross of allowance for credit losses) of the Bank, as reported to BSP, are as follows:

	2022			2021		
	Performing	**Nonperforming**	**Total**	**Performing**	**Nonperforming**	**Total**
Loans and receivables						
Microfinance loans	**₱3,618,469,684**	**₱277,361,074**	**₱3,895,830,758**	₱3,383,867,377	₱352,499,123	₱3,736,366,500
Other loans	**593,277,640**	**22,253,629**	**615,531,269**	487,403,307	23,030,339	510,433,646
Balance at end of year	**₱4,211,747,324**	**₱299,614,703**	**₱4,511,362,027**	₱3,871,270,684	₱375,529,462	₱4,246,800,146

Portfolio-at-risk (PAR)
In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment is past due for one day. As at December 31, 2022 and 2021, the Bank's PAR amounted to ₱299.78 million and ₱376.36 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱298.74 million and ₱121.10 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, nonperforming loans (NPLs) based on Circular No. 941 and as reported to the BSP amounted to as follows:

	2022	2021
Performing loans	**₱4,211,747,324**	₱3,871,270,684
Nonperforming loans	**299,614,703**	375,529,462
Balance at end of year	**₱4,511,362,027**	₱4,246,800,146

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

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

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2022 and 2021:

	2022	2021
Total outstanding DOSRI loans		
Current	**₱1,143**	₱–
	₱1,143	₱–
Percent of DOSRI accounts to total loans	**0.0%**	–

There are no unsecured DOSRI accounts in total outstanding DOSRI loans.

Secured liability and assets pledged as security
As of December 31, 2022 and 2021, the Bank has no liability that is secured by pledged assets.

Commitments and contingencies
There are no commitments and contingencies as at December 31, 2022 and 2021.

23. Supplementary Information Required under RR 15-2010

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

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

GRT	₱108,478,646
DST	41,158,963
Business permits and licenses	9,707,053
Real property tax	313,313
Others	2,970,889
	₱162,628,684

Withholding taxes in 2022 are categorized into:

	Amount remitted	Outstanding as of December 31, 2022
Final withholding tax on interest expense and dividends declared	₱9,415,542	₱2,037,396
Expanded withholding tax	8,315,198	689,004
Withholding taxes on compensation and benefits	1,676,086	1,315,508
	₱19,406,826	₱4,041,908

Tax Assessments and Cases

On December 12, 2022, the BIR rendered a letter of authority to examine the books of accounts and other accounting records for all internal revenue taxes including documentary stamp taxes and other taxes for the taxable period January 1, 2021 to December 31, 2022. The BIR has not rendered any assessment as at December 31, 2022.