Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

UCPB SAVINGS BANK, INC.

For the years ended December 31, 2022 and 2021

EXECUTIVE SUMMARY

INTRODUCTION

UCPB Savings Bank, Inc. (UCPBS or the Bank) is a domestic thrift bank incorporated in the Philippines on October 18, 1962, to provide services such as deposit-taking, loans, domestic fund transfers and treasury. The Bank is a 97.55 per cent owned subsidiary of Land Bank of the Philippines (LBP or the parent bank). The parent bank is a financial institution wholly-owned by the National Government.

On March 25, 2010, the Board of Directors (BOD) and stockholders of the Bank approved its amended Articles of Incorporation to extend the corporate term of the Bank, which expired on October 18, 2012, for another 50 years. On January 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved such amendment.

The powers and functions of the UCPBS are exercised by the BOD composed of eight directors and stockholders of the Bank. The Board is headed by a Chairman who is the President and Chief Executive Officer of the former UCPB.

The Bank's registered office and principal place of business is located at 2nd and 3rd Floors, Overseas Filipino Bank (OFB) Center, Liwasang Bonifacio, Barangay 659-A, Ermita, City of Manila The registered office of the parent bank, which is also its principal place of business, is located at LANDBANK Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Streets, Malate, Manila.

On November 5, 2020, the Bank received a letter from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPB Savings Bank Inc., is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by R.A. No. 10149.

On June 25, 2021, Executive Order No. 142, s2021 titled *"Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB"* was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the Securities and Exchange Commission, and to the conditions and limitations under Republic Act Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

UCPB shareholders approved the merger plan with LANDBANK during its stockholders' meeting on December 14, 2021. The shareholders representing 97.2 per cent of the UCPB's total outstanding capital stock voted in favor of the Plan of Merger and Articles of Merger between UCPB and LANDBANK.

With the merger of UCPB and LBP on March 1, 2022, a more unified, stronger, and more resilient institution has merged. UCPBS now a subsidiary of LBP, continues to operate on a stand-alone basis and its services will continue to be unhampered and uninterrupted, still true to its vision to be the Bank of choice in the communities it serves.

As at December 31, 2022, the Bank operates 49 branches with 9 branch lite offices and 5 lending offices. The Bank had 641 regular and 62 probationary employees or a total of 703 including one seconded officer from the UCPB, and is headed by the President.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of UCPBS for the period January 1 to December 31, 2022 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the year ended December 31, 2022. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2022	2021	Increase (Decrease)
Assets	17,033,072,107	18,600,481,829	(1,567,409,722)
Liabilities	14,610,372,644	16,246,252,779	(1,635,880,135)
Equity	2,422,699,463	2,354,229,050	68,470,413

II. Comparative Results of Operations

Particulars	2022	2021	Increase (Decrease)
Revenues	1,238,238,748	1,398,171,936	(159,933,188)
Interest expense	(133,673,376)	(169,150,903)	(35,477,527)
Impairment losses	(33,221,786)	(200,967,977)	(167,746,191)
Other operating expenses	(1,016,579,743)	(1,022,479,563)	(5,899,820)
Profit before tax	**54,763,843**	**5,573,493**	**49,190,350**
Tax expense	(17,205,178)	(988,032)	16,217,146
Net profit	**37,558,665**	**4,585,461**	**32,973,204**
Other comprehensive income	46,748,057	53,000,182	(6,252,125)
Total comprehensive income	**84,306,722**	**57,585,643**	**26,721,079**

III. Comparative Budget and Actual Expenditures

	2022		2021	
	Approved Budget	**Expenditures**	**Approved Budget**	**Expenditures**
Personal services	479,937,859	434,327,897	480,854,839	476,104,116
Maintenance and Other Operating Expense	507,689,154	423,450,561	490,963,713	483,819,003
Capital outlay	246,075,122	34,275,597	455,218,195	30,078,339
Total	**1,233,702,135**	**892,054,055**	**1,427,036,747**	**990,001,458**

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the Bank as at December 31, 2022 and 2021.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The balance of Accounts Payable (AP) account amounting to P159.495 million include long outstanding payables to borrowers totaling P70.472 million, of which P67.371 million loan payments do not satisfy the recognition criteria of liability under Conceptual Framework for Financial Reporting, thus, overstating the balance of AP by P67.371 million and overstating/understating the loans and receivable and other related accounts by still an undetermined amount as at December 31, 2022.

We recommended and Management agreed to:

a. Apply all the long and outstanding payables amounting to P67.371 million to the individual borrower's loans and receivable and other appropriate accounts to faithfully represent the balance of the AP and other affected accounts as at December 31, 2022;

b. Refund all the excess payments amounting to P4.253 million to the concerned borrowers;

c. Revisit the Guidelines on AP to include the threshold and approving authority for loan restructuring; and

d. Strictly monitor and comply with the Bank's policy pertaining to the maximum timeline for the reversal of advances made by borrowers for loan-related expenses shouldered by the borrowers.

2. Thirty-eight Real and Other Properties Acquired (ROPA) with aggregate net book value of P2.414 million as at December 31, 2022 were not appraised for more than two years, contrary to the BSP Circular No. 520, series of 2006 and UCPBS ROPA Manual.

We recommended and Management agreed to:

a. Conduct appraisal of the ROPA at the frequency required in the BSP Circular No. 520 and the UCPBS ROPA Manual; and

b. Revisit the policy on the appraisal requirement for acquired properties and include written guidelines on the minimum period or frequency of conducting appraisal of properties costing P5 million and below, taking into consideration the results of risk assessment, current situations, cost-benefit analysis and other identified factors.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

There were no balances of audit suspensions, disallowances and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 12 audit recommendations embodied in the CY 2021 Annual Audit Report, nine were fully implemented, and three were partially implemented of which two were reiterated in Part II of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
UCPB Savings Bank, Inc.
Overseas Filipino Bank (OFB) Center
Liwasang Bonifacio, City of Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **UCPB Savings Bank, Inc. (UCPBS)** which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of income, statements of comprehensive income, statements of changes in equity and 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), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2.1(a) to the financial statements.

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 UCPBS in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (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.

Emphasis of Matter

We draw attention to Note 2.1(a) to the financial statements, which states that the financial statements have been prepared in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC in response to the COVID-19 pandemic. The impact of the application of the financial reporting reliefs on the 2022 and 2021 financial statements are discussed in detail in Note 2.1(a). Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.1(a) to the financial statements, 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 UCPBS'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 UCPBS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UCPBS'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 ISSAIs 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 ISSAIs, 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 UCPBS'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 UCPBS'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 UCPBS 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 accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.1(a) to the financial statements.

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

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under the BSP Circular 1074 in Note 29 and the Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the BSP and the Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, supplementary the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

MARIA LUZ G. VENTURA
OIC, Supervising Auditor

August 1, 2023

July 26, 2023

UCPB SAVINGS
2[nd] and 3[rd] Floors, OFBank Center,
Liwasang Bonifacio, Manila
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tel: (632) 811-9000
fax: (632) 811-9586

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of UCPB Savings Bank, Inc. (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 to do so.

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

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

Commission on Audit has audited the financial statements of the Company in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

LIDUVINO S. GERON
Chairman of the Board

LIZETTE MARGARET MARY J. RACELA
President and Chief Executive Officer

IRENE S. QUINTANA
Comptroller

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021
ASSETS			
Cash and other cash items	8	652,251,247	757,009,383
Due from Bangko Sentral ng Pilipinas	8	1,523,681,596	3,535,047,206
Due from other banks	8	211,530,336	171,199,177
Securities Purchased under Resale Agreements	8	363,471,436	466,238,870
Financial assets at fair value through profit or loss	9.1	143,432,650	599,370,869
Financial assets at fair value through other comprehensive income	9.2	591,401,609	0
Financial assets at amortized cost, net	9.3	314,714,508	10,900,000
Loans and receivables, net	10	11,415,779,432	10,950,912,039
Bank premises, furniture, fixtures and equipment, and right of use asset, net	11	175,726,275	277,941,454
Investment properties, net	13	808,494,190	904,618,191
Assets held for sale, net	14	22,856,539	27,197,309
Intangible and other resources, net	15	155,557,184	227,202,141
Deferred tax assets, net	24	654,175,105	672,845,190
TOTAL ASSETS		**17,033,072,107**	**18,600,481,829**
LIABILITIES AND EQUITY			
Deposit liabilities	17	14,010,946,336	15,626,966,435
Accrued interest, taxes and other expenses	18	155,868,425	75,602,612
Income tax payable		1,404,395	7,785,072
Retirement liability	21.2	3,795,408	72,530,757
Other liabilities	19	438,358,080	463,367,903
TOTAL LIABILITIES		**14,610,372,644**	**16,246,252,779**
Capital stock		717,249,027	717,249,027
Additional paid-in capital		389,508,285	389,508,285
Revaluation reserves		(13,097,492)	(59,845,549)
Surplus reserves		14,162,692	5,714,392
Surplus		1,314,876,951	1,301,602,895
EQUITY	25	**2,422,699,463**	**2,354,229,050**
TOTAL LIABILITIES AND EQUITY		**17,033,072,107**	**18,600,481,829**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF INCOME
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021
Interest income			
Loans and receivables	10	804,258,750	1,002,183,282
Trading and investment securities	9.4	66,109,945	19,260,315
Due from BSP and other banks	8	41,153,750	59,923,355
Securities purchased under resale agreements	8	10,421,291	10,363,176
		921,943,736	**1,091,730,128**
Interest expense			
Deposit liabilities	17	(127,671,449)	(160,866,813)
Interest expense - leases	12.3	(6,001,927)	(8,284,090)
		(133,673,376)	**(169,150,903)**
Net interest income		**788,270,360**	**922,579,225**
Impairment losses		(33,221,786)	(200,967,977)
Net interest income after impairment losses		**755,048,574**	**721,611,248**
Other operating income			
Service fees		233,918,525	240,315,806
Gain/(Loss) on sale and foreclosure of assets - net	13,14	65,283,051	(423,887)
Miscellaneous	22	22,363,327	13,874,399
Trading and securities gains/(losses) - net	9.1	(5,269,891)	52,675,490
		316,295,012	**306,441,808**
Other operating expenses			
Salaries and employee benefits	21.1	(499,336,679)	(477,617,979)
Depreciation and amortization	11,13, 15	(145,449,900)	(155,483,995)
Taxes and licenses	30	(102,763,402)	(124,082,995)
Security, messengerial and janitorial		(44,706,249)	(37,718,870)
Insurance		(41,226,971)	(52,723,529)
Occupancy		(38,519,832)	(36,658,950)
Litigation	13	(33,839,679)	(22,761,907)
Transportation and travel		(12,005,064)	(9,275,141)
Management and other professional fees		(1,247,983)	(3,140,952)
Entertainment, amusement and recreation		(2,123,045)	(2,281,388)
Miscellaneous	23	(95,360,939)	(100,733,857)
		(1,016,579,743)	**(1,022,479,563)**
Profit before tax		**54,763,843**	**5,573,493**
Tax expense	24	(17,205,178)	(988,032)
Net profit		**37,558,665**	**4,585,461**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Notes	2022	2021
NET PROFIT		**37,558,665**	**4,585,461**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment defined benefit plan, net of tax	25.2	51,551,512	53,656,295
Net unrealized gain/(loss) on financial assets at fair value through other comprehensive income	9.2	(4,803,455)	(656,113)
Other comprehensive income		**46,748,057**	**53,000,182**
TOTAL COMPREHENSIVE INCOME		**84,306,722**	**57,585,643**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Capital Stock (Note 25.1)	Additional paid-in capital (Note 25.1)	Revaluation Reserves (Note 25.2)	Surplus reserves (Note 25.3)	Surplus	TOTAL
Balance at January 1, 2022						
As previously reported	**717,249,027**	**389,508,285**	**(59,845,549)**	**5,714,392**	**1,301,602,895**	**2,354,229,050**
Appropriation during the year				8,448,300	(8,448,300)	0
Effect of COA Circular 2022-004					(15,836,309)	(15,836,309)
Total comprehensive income for the year			46,748,057		37,558,665	84,306,722
Balance at December 31, 2022	**717,249,027**	**389,508,285**	**(13,097,492)**	**14,162,692**	**1,314,876,951**	**2,422,699,463**
Balance at January 1, 2021						
As previously reported	**717,249,027**	**389,508,285**	**(112,845,731)**	**50,485,455**	**1,713,754,865**	**2,758,151,901**
Appropriation during the year				(44,771,063)	44,771,063	0
Effect of BSP relief for ACL staggered booking					(461,508,494)	(461,508,494)
Total comprehensive income for the year			53,000,182		4,585,461	57,585,643
Balance at December 31, 2021	**717,249,027**	**389,508,285**	**(59,845,549)**	**5,714,392**	**1,301,602,895**	**2,354,229,050**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		942,656,372	1,071,743,785
Interest paid		(130,537,706)	(174,318,016)
Fees and commission received		233,918,525	240,315,806
Gain on financial assets and liabilities-FVTPL	9.1	1,981,443	53,241,439
Miscellaneous Income		11,605,126	8,985,059
General and administrative expenses		(871,129,843)	(866,995,568)
Operating income before changes in operating assets and liabilities		**188,493,917**	**332,972,505**
Changes in operating assets and liabilities			
(Increase)/Decrease in operating assets and liabilities			
FA-Fair value through profit or loss		448,686,885	(439,657,528)
FA-Fair value through other comprehensive income		(596,205,064)	57,165,806
FA-Amortized Cost		(303,814,508)	210,081,397
Loans and receivable		(364,275,474)	1,484,598,692
Other Assets		82,063,663	107,878,908
Increase/(Decrease) in operating assets and liabilities			
Deposit Liabilities		(1,619,155,769)	(3,007,863,709)
Accrued taxes, interest and other expenses		80,265,813	160,713,125
Other Liabilities		(2,115,549)	(57,779,087)
Net cash used in operations		**(2,086,056,086)**	**(1,151,889,891)**
Income Taxes Paid		0	(38,907,004)
Net cash used in operating activities		**(2,086,056,086)**	**(1,190,796,895)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	11	(17,936,834)	(24,767,692)
Disposal of property and equipment		1,448,609	2,585,065
Addition to intangible and other assets	15	(19,004,426)	(9,225,744)
Net cash used in investing activities		**(35,492,651)**	**(31,408,371)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities		(57,011,284)	(60,316,288)
Net cash used in financing activities		**(57,011,284)**	**(60,316,288)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,178,560,021)**	**(1,282,521,554)**
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2022	8	**4,929,494,636**	**6,212,016,190**
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2022	8	**2,750,934,615**	**4,929,494,636**

The Notes on pages 10 to 98 form part of these financial statements

UCPB SAVINGS BANK, INC.
(*A Subsidiary of Land Bank of the Philippines*)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 *Incorporation and Operations*

UCPB Savings Bank, Inc. (UCPBS or the Bank) is a domestic thrift bank incorporated in the Philippines on October 18, 1962, to provide services such as deposit-taking, loans, domestic fund transfers and treasury. The Bank is a 97.55 per cent owned subsidiary of Land Bank of the Philippines (LBP or the parent bank). The parent bank is a financial institution wholly-owned by the National Government.

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The Bank's registered office and principal place of business is located at 2nd and 3rd Floors, Overseas Filipino Bank (OFB) Center, Liwasang Bonifacio, Barangay 659-A, Ermita, City of Manila. As of December 31, 2022, the Bank operates 49 branches with 9 and 8 branch lite offices in 2022 and 2021 respectively. The registered office of the parent bank, which is also its principal place of business, is located at LANDBANK Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Streets, Malate, Manila.

On November 05, 2020, the Bank received a letter from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPB Savings Bank Inc., is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by Republic Act (R.A.) No. 10149.

Under Section 3 of R.A. No. 10149, otherwise known as the GOCC Governance Act of 2011, a government-owned or-controlled corporation is defined as:

(o) Government-Owned or -Controlled Corporation (GOCC) refers to any agency organized as a stock or nonstock corporation, vested with functions relating to public needs whether governmental or proprietary in nature, and **owned by the Government of the Republic of the Philippines** directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations**, to the extent of at least a majority of its outstanding capital stock**: Provided, however, That for purposes of this Act, the term "GOCC"- shall include GICP/GCE and GFI as defined herein. (*Emphasis supplied*)

Further, under the same section, a government financial institution (GFI) is defined as:

(m) Government Financial Institutions (GFIs) refer to financial institutions or corporations in which **the government directly or indirectly owns majority of the capital stock** and which are either: (1) registered with or directly supervised by the Bangko Sentral ng Pilipinas; or (2) collecting or transacting funds or contributions from the public and places them in financial instruments *or* assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System. *(Emphasis Supplied)*

UCPB Savings Bank, Inc. is an incorporated domestic thrift bank which provides deposit-taking, loans, domestic fund transfers, and treasury services. The Bank is under the supervision of the Bangko Sentral ng Pilipinas, categorized as a thrift bank. On the basis of the above definitions**, thus, UCPB Savings Bank, Inc. is a GFI**.

On June 25, 2021, Executive Order No. 142, s2021 titled "Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB" was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the Securities and Exchange Commission, and to the conditions and limitations under Republic Act Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

UCPB shareholders approved the merger plan with LANDBANK during its stockholders' meeting on December 14, 2021. The shareholders representing 97.2 per cent of the UCPB's total outstanding capital stock voted in favor of the Plan of Merger and Articles of Merger between UCPB and LANDBANK.

With the merger of UCPB and LBP on March 01, 2022, a more unified, stronger, and more resilient institution has merged. UCPBS now a subsidiary of LBP, continues to operate on a stand-alone basis and its services will continue to be unhampered and uninterrupted, still true to its vision to be the Bank of choice in the communities it serves.

The officers and staff of UCPBS remained committed to serving the nation and delivering that brand of service that it is known for, "Kasama Mo".

1.2 *Continuing effect of COVID-19 Pandemic on Bank's Business*

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

In 2022 and 2021, the Bank has taken the following measures to mitigate the adverse effects of the COVID-19 pandemic to the Bank's business.

- Implemented additional health and safety protocols for its employees and visitors such as the frequent disinfection of facilities and COVID-19 testing for its employees among others.

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

In addition to the government-mandated reliefs, the Bank has offered financial relief in response to the COVID-19 situation. These relief measures were granted to eligible customers. Relief measures are as follows:

- payment of amortization relief including extension of contractual terms; principal and interest relief including lower amortization on extended terms; and
- change from loan line to term loan (i.e., consolidation of amounts due).

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

1.3 *Approval of Financial Statements*

The financial statements of the Bank as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were approved and authorized for issue by the Bank on July 28, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) Memorandum

M-2020-08 Regulatory Relief for BSFIs Affected by Corona Virus Disease 2019 (COVID-19), dated March 14, 2020, and approved by the SEC in Memorandum Circular No. 32-2020 issued on November 17, 2020 in response to the COVID-19 pandemic.

Pursuant to the BSP M-2020-08, the Bank availed the financial reporting relief for the staggered booking of some of its Allowance for Credit Losses (ACL). The Request for BSP relief was initially applied on February 28, 2021 and resubmitted to the BSP on April 7, 2021 due to other requirements of the BSP.

The BSP approved the request on the staggered booking of the company's ACL over a maximum period of five years on May 6, 2021 as per letter dated May 24, 2021.

As of December 31, 2022, the remaining ACL balance for staggered booking is P326.78 million. BSP approved staggered booking is shown below:

	Allowance for Credit Losses (ACL) for staggered booking	**Deferred Tax Asset related to recognized allowance**	**Net Effect on Retained Earnings**
Year 2021	615,344,658	153,836,165	461,508,493
Year 2022	435,705,565	108,926,391	326,779,174
Year 2023	326,779,174	81,694,794	245,084,380
Year 2024	217,852,783	54,463,196	163,389,587
Year 2025	108,926,391	27,231,598	81,694,793

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents the statement of comprehensive income separate from the statement of income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are required to be disclosed.

(c) Functional and Presentation Currency

The accompanying financial statements are presented in Philippine pesos, which is the functional and presentation currency of the Bank. All values represent absolute amounts except when otherwise indicated.

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

2.2 *Adoption of New and Amended PFRS*

The Bank adopted for the first time the following new PFRS, amendments to PAS or PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022.

(i) PFRS 3 (Amendment), Reference to the Conceptual Framework (effective from January 1, 2022). The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of PFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope PAS 37 Provisions, Contingent Liabilities, and Contingent Assets or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The application of these amendments had no significant impact on Bank's financial statements.

(ii) PAS 16 (Amendment), Property, Plant and Equipment – Proceeds before Intended Use (effective from January 1, 2022). The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in statement of income. There is no material effect on the Bank's financial statements.

(iii) PAS 37 (Amendment), Onerous Contracts – Cost of Fulfilling a Contract (effective from January 1, 2022) - costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under contract. The Bank is presently assessing the impact in adopting the amendment. There is no material effect on the Bank's financial statements.

(iv) Annual Improvements to PFRS Standards 2018 - 2020 are effective from January 1, 2022 –

Among the improvements, the following amendments are relevant to the Bank:

PFRS 9, Fees in the "10 per cent" test for derecognition of financial liabilities - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

PFRS 16, Lease Incentives - The amendment merely removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Both the above amendments caused no effect in the Bank's FS.

2.3 *Standards issued but not yet effective*

Effective beginning on or after January 1, 2023

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

(i) PAS 1 (Amendments) Presentation of Financial Statements – *Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. It is expected that the amendments will have no material effect on the Bank's financial statements.

(ii) PAS 1 (Amendments), Presentation of Financial Statements – *Disclosure of Accounting Policies* (effective January 1, 2023). The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. It is expected that the amendments will have no material effect on the Bank's financial statements.

(iii) PAS 8 (Amendments), Accounting Estimates – *Definition of Accounting Estimates* (January 1, 2023). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". It is expected that the amendments will have no material effect on the Bank's financial statements.

(iv) PAS 12 (Amendments), Income Taxes – *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (January 1, 2023). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. It is expected that the amendments will have no material effect on the Bank's financial statements.

2.4 *Financial Instrument*

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

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Bank or advanced to the borrowers.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at Fair Value Through Profit or Loss (FVTPL), transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

a) Classification, Measurement and Reclassification of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets applicable to the Bank are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

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

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

The financial asset held within the business model of "Amortized Cost" or "Held-to Collect" is achieved by collecting contractual payments over the life of the instrument. These assets are initially measured at fair value plus any transaction cost. These are subsequently measured at amortized cost, using the effective interest method, less any allowance for Expected Credit Losses (ECL). Measurement at amortized cost involves reflecting the instrument at its acquisition value plus any unpaid amortized income.

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

The Bank's financial assets at amortized cost are presented in the Statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables and Financial Assets at Amortized Cost.

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

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2022 and 2021 the Bank has not made such designation.

(ii) Financial Asset at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at Fair Value Through Other Comprehensive Income (FVOCI) if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

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

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank’s financial assets at FVTPL include government debt securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Trading and securities gain (losses) under Other Operating Income (Expense) in the statement of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported in statement of income under Interest Income account.

b) Recognition of Interest Income Using Effective Interest Rate Method

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

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

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

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

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

(c) Reclassification of Financial Assets

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

A change in the objective of the Bank's business model will take effect only at the beginning of the reporting period following the change in the business model.

(d) Impairment of Financial Assets under PFRS 9

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts such as financial guarantees and loan commitments. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instrument for which they are measured at 12- months ECL.

- All current loan accounts, except restructured loan,
- The debt securities that are identified to have "low credit risk" at the reporting date; and,
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

- Probability of default (PD) - It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon.

- Loss given default (LGD) - It is an estimate of loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral.

- Exposure at default (EAD) - It represents the gross carrying amount of the financial instruments subject to the impairment calculation. In case of financial guarantee and loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The Bank measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

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

The Bank's detailed ECL measurement as determined by the management is disclosed in Note 4.2 and 16.

(e) Financial Liabilities at Amortized Cost

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except retirement benefit liability and other taxes payable), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in statement of income as part of Interest Expense in the statement of income.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

(f) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) Modification of Loans

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

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

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(g) Derecognition of Financial Liabilities

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

(h) Financial Guarantees and Undrawn Loan Commitment

Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not reflected in the statement of financial position. These contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the Bank's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position. As of December 31, 2022 and 2021, the Bank has no outstanding financial guarantees and loan commitments.

2.5 Bank Premises, Furniture, Fixtures and Equipment

Depreciable properties, including buildings and improvements, furniture, fixtures and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization, and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which 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 bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the shorter of the term covering the leases and the estimated useful lives of the improvements. The estimated useful lives of the depreciable assets are as follows:

Building and Building Improvements	20 years
Furniture, Fixtures and Equipment	3 to 5 years

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment. The carrying amounts of bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable. If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.9 and 11).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each end of reporting period.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 statements of income in the year the asset is derecognized.

2.6 Investment Properties

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

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and impairment (see Note 13).

Depreciation is computed using the straight-line method over their respective useful life ranging from five to 30 years. Land is carried at cost less any impairment in value (see Note 2.9 and 13).

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which costs are incurred.

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

2.7 Assets Held-for-Sale

Assets held-for-sale include real and other properties (i.e., motorcycles and other vehicles) acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held-for-sale and is committed to immediately dispose the assets through an active marketing program.

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. The Bank recognizes impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation.

If the Bank has classified an asset as held-for-sale, but the criteria for it to be recognized as held-for-sale are no longer satisfied, the Bank ceases to classify the asset as held-for sale. The gain or loss arising from the sale or remeasurement of assets held-for-sale is recognized in statement of income and included as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income.

2.8 Intangible Assets and Other Resources

Intangible assets consist of acquired software costs that are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to 10 years). Intangible assets are subject to impairment testing as described in Note 2.9.

Cost associated with maintaining the computer software programs are recognized as expense when incurred.

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

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

2.9 Impairment of Non-financial Assets

At each reporting date, the Bank assesses whether there is any indication that its bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale, intangible assets and other 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 the recoverable amount.

Recoverable amount is the higher of a non-financial asset's fair value less cost to sell and its value in use, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as a part of the cash-generating unit 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is charged to profit and loss in the year in which it arises. For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that such assets are impaired or whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' 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 and amortization 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.

2.10 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The asset or liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries and Employee Benefits account under Other Operating Expenses section of the statement of income.

Past service costs are recognized immediately in statement of income in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plans

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

(c) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in statement of income during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Taxes, Interests, and Other Expenses in the statement of financial position.

(d) Termination Benefits

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

(e) Bonus Plans

The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) Compensated Absences

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

2.11 Borrowing Cost

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset.

The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

2.12 Leases

The Bank accounts for its leases as follows:

(a) Accounting for Leases in Accordance with PFRS 16

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

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

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

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

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

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

2.13 Provision and Contingencies

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

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

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

On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Related party Transactions and Relationships

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

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

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

2.15 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

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

2.16 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in statement of income upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in statement of income on accrual basis.

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

The following specific recognition criteria must also be met before revenue is recognized:

(a) Revenues within the scope of PFRS 15

(i) Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

(ii) Fees and commissions

- *Fee income earned from services that are provided over time*

Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Bank. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include service fees and commission income.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Other Income

Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectability of the sale prices is reasonably assured.

(b) Revenues outside the scope of PFRS 15

(i) Interest Income

Interest on interest-bearing financial assets at FVTPL are recognized based on the contractual rate. Interest on financial instruments is recognized based on the EIR method of accounting (see Note 2.4).

(ii) *Recovery on charged-off assets*

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

(iii) *Dividend Income*

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

(iv) *Trading and securities gain (loss) - net*

Results arising from trading activities include all gains and losses from changes in fair value for Financial assets at FVTPL and gains and losses from disposal of Financial assets at amortized cost.

(v) *Rental Income*

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Costs and expenses are recognized in the statement of income upon utilization of the resources and/or services or at the date they are incurred. All finance costs are reported on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.11).

2.17 Equity

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

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves consist of:

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

(b) Unrealized gains and losses due to the revaluation of financial assets at FVOCI.

Surplus reserves pertain to the following:

(a) Amounts set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

(b) Accumulated amount set aside for possible or unforeseen losses, decrease of shrinkage in the book value of the Bank's assets or for undeterminable liabilities not otherwise recorded such as those arising from lawsuits, defaults on obligations and unexpected differences.

(c) General loan loss reserve which pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* over the computed allowance for ECL for Stage 1 financial instruments.

Surplus includes all current and prior period results of operations as reported in the statement of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

2.18 Events After the End of the Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRSs requires the management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

3.1 Critical Management Judgments in Applying Accounting Policies

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

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

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

For leases of warehouses and offices, the factors that are normally the most relevant are (a) if there are significant penalties should the bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. The Bank included the renewal period as part of the lease term for leases of warehouses and offices due to the significance of these assets to its operations. These leases have a short, noncancellable lease period (i.e., one to four years) and there will be a significant negative effect on production if a replacement is not readily available. The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(b) Evaluation of Business Model Applied in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

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

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

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

(d) Distinction Between Investment Properties and Owned-Managed Properties

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

(e) Classification and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered principally through sale rather than continuing use of the asset, as Investment Properties if currently held for undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and disclosures on relevant provisions and contingencies are presented in Note 16.

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) Estimation of Allowance of ECL

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

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;

- criteria for assessing if there has been a significant increase in credit risk and when a financial asset will be transferred between the three stages;

- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;

- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;

- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,

- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

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

The Bank carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates and judgements. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 9).

The amount of changes in fair value of financial assets and financial liabilities would affect statement of income or other comprehensive income.

The fair value of financial assets measured at fair value are grouped in fair value hierarchy disclosed in Note 7.1. Further, the carrying values of the Bank's financial assets at FVTPL and FVOCI financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 9.1 and 9.2.

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

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use.

The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

(e) Fair Value Measurement of Investment Properties and Assets Held-for-Sale

The Bank's investment properties which consist of parcels of land and buildings, and improvements which are held for capital appreciation or held under operating lease agreements, and assets held-for-sale are measured using the cost model. The estimated fair values of investment properties and assets held-for-sale as disclosed in Notes 13 and 14, respectively, is determined on the basis of appraisals conducted by qualified internal and independent professional appraisers applying the relevant valuation methodologies as discussed therein.

For investment properties and assets held-for-sale with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair values of those properties. As of December 31, 2022 and 2021, there were no circumstances that management has determined possible adjustments in the fair values of the investment properties and assets held-for-sale.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) Determination of Realizable Amount of Deferred Tax Assets

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

Management assessed that the deferred tax assets recognized as at December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(g) Impairment of Non-financial Assets

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

Impairment losses recognized on the Bank's non-financial assets are disclosed in Note 16.

(h) Valuation of Post-Employment Defined Benefits

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4 RISK MANAGEMENT POLICIES AND OBJECTIVES

The Bank has exposure to the following risk from its use of financial instrument.

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The Bank is cognizant of the need to address various other risks such as operations risk, technology risk, strategic/business risk, compliance risk and legal risk.

4.1 Risk Management

Overall, the Bank's BOD is responsible for approving the Bank's risk governance framework and overseeing its implementation by management. Relative to this, BOD is responsible for defining the Bank's risk appetite and organizational responsibilities following the three lines of defense framework; approve and oversee the Bank's adherence to the risk appetite statement expressed in limits and policies/procedures relating to the management of risks throughout the Bank.

The risk management framework adopted by the Bank consists of the following processes:

- Risk identification
- Risk measurement
- Risk control
- Risk monitoring

The above processes are performed coherently and collaboratively at three levels, namely:

- Strategic level – where the BOD and, senior management set mission and vision, define the risk philosophy, define strategic plans and revenue goals.

- Transaction level – where the Risk-Taking Personnel (RTP), Front and Back-Office personnel determine opportunities and take risks. The risk-taking activities at this level shall be congruent to the goals, strategies and risk philosophy set by the policy making body.

- Portfolio level – where the portfolio/position risks are captured and evaluated by independent third party, other than the RTP [i.e., Risk Management Division (RMD), Internal Audit Division and Compliance Division].

The Risk Oversight Committee, (ROC), a board-level committee created by the BOD, advise the BOD on the overall current and future risk appetite of the Bank, oversee senior management's adherence to the risk appetite statement, report on the state of risk culture and oversee the risk management function of the Bank through the RMD.

RMD, which is independent of the business units, and is directly reporting to the ROC, performs daily market risk analyses to measure market risk exposures, monitors credit risk exposures and portfolio movements, and monitors compliance with the Bank's policies, procedures and limits. RMD also takes the lead in the development of the Bank's internal limits structure, risk classification and profiling through the internal credit risk rating system.

4.2 Credit Risk

Credit risk arises from a counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. It arises any time the Banks's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off books. Credit risk is not limited to the loan portfolio.

(a) Management of Credit Risk

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and the Executive Committee while that of the individual borrowers is performed by the business units. Risk management is embedded in the entire credit process, i.e. from credit origination to remedial management (if needed). Among the tools used by the Bank in managing credit risk include the following:

- Credit policies and procedures;
- Approving authorities
- Internal credit rating for commercial loans subject to individual assessment;
- Review of the sufficiency of valuation reserves;
- Monitoring the adequacy of capital for credit risk via the capital adequacy ratio;
- Monitoring of breaches in regulatory limits; and,
- Credit scoring for auto loans
- Credit risk management dashboard to identify the following:
    - portfolio growth;
    - loss rate
    - movements in non-performing loans (NPL); and,
    - movement in foreclosed assets.

(b) Credit Risk at Initial Recognition

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

(c) Modification

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

(d) Concentration of Risks of Financial Assets with Credit Risk Exposures

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank manages risk concentration via monthly monitoring and reporting to the ROC and BOD of the following:

- Exposure to each loan product in terms of amount, percentage to total loan portfolio, and past due and NPL amounts and ratios;
- Ratio of secured to unsecured loans; and,
- Large exposures or accounts equal or greater than five per cent of the qualifying capital.
- Top 20 borrowers.

The Bank monitors concentration of credit risk by industry of counterparty. An analysis of concentration risk (at net amount) at the reporting date is presented below and in the succeeding page:

	December 31, 2022			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	4,113,415,091	0	0	4,113,415,091
Financial intermediaries	589,167,444	211,530,336	0	800,697,780
Philippine government	0	1,887,153,032	1,049,648,767	2,936,801,799
Others community, social and personal services	8,721,216,212	0	0	8,721,216,212
	13,423,798,747	2,098,683,368	1,049,648,767	16,572,130,882
Less allowance for credit and impairment losses	2,008,019,315	0	100,000	2,008,119,315
	11,415,779,432	**2,098,683,368**	**1,049,548,767**	**14,564,011,567**

	December 31, 2021			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	4,198,355,208	0	0	4,198,355,208
Financial intermediaries	548,547,020	171,199,177	0	719,746,197
Philippine government	0	4,001,286,076	610,370,869	4,611,656,945
Others community, social and personal services	8,197,509,103	0	0	8,197,509,103
	12,944,411,331	4,172,485,253	610,370,869	17,727,267,453
Less allowance for credit and impairment losses	1,993,499,292	0	100,000	1,993,599,292
	10,950,912,039	**4,172,485,253**	**610,270,869**	**15,773,668,161**

a. Comprised of Due from BSP, Due from Other Banks and SPURA.
b. Comprised of Financial Assets at FVTPL, FVOCI, Financial Assets at Amortized Cost.

(e) Excessive Risk Concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, product, and security.

To monitor risk concentration, RMD reports monthly to the ROC trends in loan portfolio and past due (both performing and non-performing) and compliance with internal limits.

(f) Maximum Exposure to Credit Risk

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets except for certain secured loans and discounts shown below and in the succeeding page:

	Gross Maximum Exposure	**Fair Value of Collaterals**	**Net Exposure**	**Financial Effect of Collaterals**
December 31, 2022				
Loans and discounts				
Commercial	5,096,545,657	3,649,417,696	1,447,127,961	3,649,417,696
Consumption	4,151,386,335	0	4,151,386,335	0
Real estate	3,142,296,561	5,496,849,500	(2,354,552,939)	3,142,296,561
Others	447,446,935	96,169,367	351,277,568	96,169,367
	12,837,675,488	**9,242,436,563**	**3,595,238,925**	**6,887,883,624**

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
December 31, 2021				
Loans and discounts				
Commercial	4,736,117,630	3,910,132,650	825,984,980	3,910,132,650
Consumption	3,872,139,379	0	3,872,139,379	0
Real estate	3,181,457,920	5,533,356,989	(2,351,899,069)	3,181,457,920
Others	844,467,589	0	844,467,589	0
	12,634,182,518	**9,443,489,639**	**3,190,692,879**	**7,091,590,570**

The following table shows the description of credit quality of commercial accounts:

Credit Quality	ICRR System Grade	Description
High grade	1	Excellent
	2	Strong
Standard grade	3	Good
	4	Satisfactory
	5	Acceptable
	6	Watchlist
Substandard grade	7	Especially mentioned
	8	Substandard
Impaired	9	Doubtful
	10	Loss

Excellent

This rating is given to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity and has access to public markets to raise substantial amount of funds at any time; has a very strong debt service capacity and has conservative balance sheet leverage. The track record of the borrower in terms of profit is very good and exhibits highest quality under virtually all economic conditions.

Strong

This rating is given to borrowers with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, the borrower has good access to public markets to raise funds. Borrower has a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative.

Good

This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Probability of default is quite low and it bears some degree of stability and substance. However, borrower may be susceptible to cyclical changes and more concentration of business risk, by product or by market. Typical of this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure.

Satisfactory

This rating is given to a borrower where clear risk elements exist, the probability of default is somewhat and normally has limited access to public markets. The probability is reflected in volatility of earnings and overall performance. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. The borrower has the combination of reasonably sound assets and cash flow protection with adequate debt service capacity and has reported profits in the past year and is expected to report a profit in the current year.

Acceptable

This rating is given to a borrower whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. The risk to this borrower is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or project finance transaction, an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Watchlist

This rating is given to a borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on its financial statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

Especially Mentioned

This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. No immediate threat to the repayment of the loan exists through normal course of business but factors may exist that could adversely affect the credit worthiness of the borrower.

Substandard

This rating is given to a borrower where repayment of loan through normal course of business may be in jeopardy due to some adverse events. There exists the possibility of future losses to the institution unless given closer supervision.

Doubtful

This rating is given to a borrower who exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as “Loss” is deferred because of specific pending factors which may strengthen the assets.

Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.

The following table shows credit quality per class of financial assets based on the Bank’s rating system (gross of allowance for credit losses):

	2022				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Receivables from customers:					
Corporate loans:					
High Grade	0	0	0	0	0
Standard Grade	1,633,622,191	0	0	1,633,622,191	1,213,703,557
Substandard Grade	16,800,000	791,673,332	145,807,070	954,280,402	1,261,416,864
Unrated	285,706,688	0	0	285,706,688	203,940,944
Past due but not impaired	24,620,277	1,377,595	22,606,231	48,604,103	27,523,420
Impaired	0	153,478,054	2,020,854,219	2,174,332,273	2,029,532,845
	1,960,749,156	**946,528,981**	**2,189,267,520**	**5,096,545,657**	**4,736,117,630**
Consumer loans:					
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	5,866,368,905	0	0	5,866,368,905	5,868,067,285
Past due but not impaired	33,498,829	315,135,299	165,306,507	513,940,635	1,897,540,188
Impaired	0	0	1,360,820,291	1,360,820,291	132,457,415
	5,899,867,734	**315,135,299**	**1,526,126,798**	**7,741,129,831**	**7,898,064,888**
Unquoted debt securities:					
High Grade	0	0	0	0	501,145
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	339,339	0	0	339,339	0
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	339,339	**0**	**0**	**339,339**	**501,145**
Sales contract receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	35,655,935	5,319,537	143,560,456	184,535,928	37,084,703
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	35,655,935	**5,319,537**	**143,560,456**	**184,535,928**	**37,084,703**

	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
Accrued interest receivables:					
High Grade	0	0	0	0	0
Standard Grade	10,831,881	0	0	10,831,881	5,941,681
Substandard Grade	1,686,496	50,061,293	4,530,382	56,278,171	58,157,523
Unrated	44,110,554	15,739	58,063	44,184,356	67,138,002
Past due but not impaired	715,729	4,320,811	3,413,575	8,450,115	32,179,388
Impaired	0	2,052,484	58,349,702	60,402,186	37,442,751
	57,344,660	**56,450,327**	**66,351,723**	**180,146,709**	**200,859,345**
Accounts receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	0	221,196,184	2,021,174	223,217,358	74,522,457
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	0	**221,196,184**	**2,021,174**	**223,217,358**	**74,522,457**
Bills Purchased:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	2,904,101	0	0	2,904,101	1,255,178
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	2,904,101	**0**	**0**	**2,904,101**	**1,255,178**
Total	**7,956,860,925**	**1,544,630,328**	**3,927,327,670**	**13,428,818,923**	**12,948,405,346**

Due from BSP and due from other banks are rated as high grade since these are deposited in or transacted with reputable banks which have low probability of insolvency. Government securities are rated as high grade since these are issued by the ROP.

(g) Past Due but not Impaired Loans and Receivables

These are loans and receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and or status of collection of amounts owed to the Bank.
As at December 31, 2022 aging analysis of past due but not individually impaired loans and discounts are shown below:

	90 to 180 days	Over 180 days	Total
Real estate	344,431,885	0	344,431,885
Commercial	45,791,603	2,812,500	48,604,103
Consumption	156,146,342	0	156,146,342
Others	13,362,409	0	13,362,409
	559,732,239	**2,812,500**	**562,544,739**

(h) Impaired Loans and Receivables and Investments Securities

These are certain loans and receivables and investment securities for which the Bank determines that it is highly probable that it will not be able to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees and other registered securities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and these are updated every two years. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Bank is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral is not usually held against investment securities and no such collateral was held as at December 31, 2022 and 2021.

The total fair value of collaterals of impaired loans and receivables amounted to P2.21 billion and P1.75 billion as at December 31, 2022 and 2021, respectively. These collaterals consist of real estate mortgages and chattel mortgages.

It is the Bank’s policy to dispose of foreclosed properties acquired in an orderly manner.

Such assets for disposal are offered for sale through public bidding (only after they are appraised anew to determine current market values and duly bid for, based on the approved minimum bid price). The proceeds of the sale of the foreclosed assets classified as Investment Properties and Assets Held-for-Sale in the statements of financial position are used to reduce or repay the outstanding claim.

As at December 31, 2022 and 2021, restructured loans amounted to P1.12 billion and P1.05 billion, respectively. Restructured loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As at December 31, 2022 and 2021, restructured loans considered as NPL amounted to P805 million and P827 million, respectively.

The breakdown of restructured loans and discounts by class are shown below:

	2022	2021
Commercial	978,743,000	960,388,172
Consumption	107,000,154	55,538,956
Real estate	19,480,660	18,774,860
Others	9,918,318	11,737,192
	1,115,142,132	**1,046,439,180**

(i) Impact of COVID-19 on Measurement of Expected Credit Loss

The Bank focused on supporting customers who are experiencing (i.e., those availing of reliefs) and about to experience financial difficulties (i.e., those with reprieved business operations) as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest).

In accordance with regulatory guidance, the Bank implemented mandatory payment holidays to all eligible loan accounts. The following are the considerations in measuring ECL under COVID-19 situation:

(a) Significant Increase in Credit Risk

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

(b) COVID-19 Overlay

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support program. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments. The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2022 and 2021 are disclosed in Note 16.

(j) Modification of Financial Assets

(a) Financial Reliefs Provided by the Bank

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

In addition to the government-mandated reliefs, the Bank has offered financial relief in response to the COVID-19 situation. These relief measures were granted to eligible customers. Relief measures are as follows:

- payment of amortization relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended terms; and
- change from loan line to term loan (i.e., consolidation of amounts due).

The outstanding balance of restructured loans amounts to P1.12 billion and P1.05 billion as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounts to P217.16 million and P280.40 million as of the same dates, respectively.

Of the total outstanding restructured loans as of December 31, 2022, P109.52 million are due to impact of COVID-19 situation.

(b) Financial Reliefs Mandated by the Government

In compliance with Republic Act No. 11469, *Bayanihan to Heal as One* Act), (BAHO Act) the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with Republic Act No. 11494, *Bayanihan to Recoveras One Act,* (BARO Act), the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods.

As of December 31, 2022 and 2021, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P 2.69 billion and P3.98 billion, respectively.

The financial reliefs provided by the Bank and mandated by the Government has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows were substantially equivalent.

The following table provides a summary of outstanding balances of modified loans resulting from the financial reliefs provided by the Bank and mandated by the Government as of December 31, 2022:

	2022 BAHO/BARO Accts.	**2021 BAHO/BARO Accts.**
Stage 1 (Performing)		
Corporate	101,023,044	333,150,065
Commercial	852,231,310	1,819,598,972
	953,254,354	**2,152,749,037**
Stage 2 (Underperforming)		
Corporate	543,090,464	573,518,409
Commercial	108,518,328	145,720,276
	651,608,792	**719,238,685**
Stage 3 (Non-performing)		
Corporate	153,747,942	85,081,670
Commercial	937,196,208	1,025,590,782
	1,090,944,150	**1,110,672,452**

(c) Assessment of SICR

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

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

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 4.3).

4.3 Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligation when they fall due without incurring unacceptable losses.

The Bank's objective in liquidity risk management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and be able to take advantage of interest rate opportunities when they arise.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets.

MCO is a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition. The MCO is generated by distributing the cash flows of the Bank's assets, liabilities and off-balance sheet items to time bands based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Bank is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Bank is said to have a negative liquidity gap or funding need for the given time bucket.

The Bank's MCO focuses on a 12-month period wherein cumulative outflow in various time bands within the 12-month period are compared to the acceptable MCO limits set by the BOD. Furthermore, internal liquidity ratios have been set. The Bank seeks to maintain sufficient liquidity by funding diversification and by maintaining a balanced loan portfolio which is repriced on a regular basis.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Bank also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Bank's liquidity profile. Liquidity stress testing is performed quarterly.

Following are liquidity ratios monitored by the Bank:

- Liquid Assets Analysis

	2022		2021	
	Primary Reserve to Deposit*	**Secondary Reserves to Deposits****	**Primary Reserve to Deposit***	**Secondary Reserves to Deposits****
December	20.31%	7.49%	31.34%	3.91%
September	17.83%	12.87%	28.86%	6.21%
June	22.48%	13.48%	32.08%	3.70%
March	23.56%	12.12%	32.63%	1.24%

*Primary (Cash and Other Cash Items, due from BSP and other banks, interbank loans)
**Secondary [FVTPL, FVOCI, Amortized cost and Unquoted debt securities]

- Loan to Deposit Ratio

	March	June	September	December
2022	81.26%	81.97%	88.87%	91.63%
2021	81.22%	80.18%	81.86%	80.85%

(a) Large Fund Providers

This measures the Bank's concentrated exposure to large lenders, which is monitored monthly by the RMD to check the Bank's vulnerability to a substantial drop in deposit levels as a result of an outflow due to large depositors. The report is presented to the ROC and BOD.

Percentage of large funds to total deposit liabilities follows:

	2022	2021
December	13.67%	20.44%
September	15.63%	24.64%
June	17.25%	27.66%
March	19.90%	27.26%

(b) Financial Assets and Financial Liabilities

Analysis of equity and debt securities at fair value into maturity banking is based on the expected date of realization and remaining contractual maturities, respectively.

For other assets, the analysis into contractual maturity banking is based on the remaining period from the end of the reporting period to the maturity date.

The maturity banking is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

The table in the succeeding page shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual cash flows (in thousands):

	2022					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Financial Assets:						
Financial assets at FVTPL	147,261	0	0	0	0	147,261
Financial assets at FVOCI:						
Government securities	300,454	5,253	322,570	81,896	0	710,173
Financial assets at amortized cost	0	7,392	8,886	341,599	0	357,877
At amortized cost:						
Cash and other cash items	652,251	0	0	0	0	652,251
Due from BSP	1,523,682	0	0	0	0	1,523,682
Due from other banks	211,530	0	0	0	0	211,530
Loans and discounts:						
Commercial	1,933,991	605,693	383,777	1,582,223	859,241	5,364,925
Consumption	376,687	8,968	195,093	3,926,150	122,706	4,629,604
Real estate	22,159	213	17,159	378,747	4,165,800	4,584,078
Others	32,356	7,850	121,272	324,389	0	485,867
Unquoted debt securities	0	0	56	283	0	339
Sales contract receivable	19	11	276	10,572	313,224	324,102
Accrued interest receivable	180,147	0	0	0	0	180,147
Accounts receivable	0	0	223,217	0	0	223,217
Bills purchased	2,904	0	0	0	0	2,904
Total Financial Resources	5,383,441	635,380	1,272,306	6,645,859	5,460,971	19,397,957
Financial Liabilities:						
Deposit liabilities:						
Demand	3,292,768	0	0	0	0	3,292,768
Savings	6,502,880	0	0	0	0	6,502,880
Time	3,237,666	0	0	684,596	293,036	4,215,298
	13,033,314	0	0	684,596	293,036	14,010,946
Total Financial Liabilities	13,033,314	0	0	684,596	293,036	14,010,946
Net Liquidity Surplus (Gap)	**(7,649,873)**	**635,380**	1,272,306	**5,961,263**	**5,167,935**	**5,387,011**

	2021					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Financial Assets:						
Financial assets at FVTPL	600,218	0	0	0	0	600,218
Financial assets at FVOCI:						
Government securities	0	0	0	0	0	0
Financial assets at amortized cost	0	114	682	12,766	57	13,619
At amortized cost:						
Cash and other cash items	757,009	0	0	0	0	757,009
Due from BSP	3,535,047	0	0	0	0	3,535,047
Due from other banks	171,199	0	0	0	0	171,199
Loans and discounts:						
Commercial	1,857,817	582,006	546,389	1,082,864	1,029,785	5,098,861
Consumption	261,706	9,446	271,069	3,537,635	75,498	4,155,354
Real estate	17,913	806	27,702	331,839	4,269,125	4,647,385
Others	29,879	3,400	85,967	875,475	505	995,226
Unquoted debt securities	0	0	0	501	0	501
Sales contract receivable	0	0	22,427	14,639	0	37,066

	2021					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Accrued interest receivable	200,859	0	0	0	0	200,859
Accounts receivable	65,509	3,891	1,950	3,172	0	74,522
Bills purchased	1,255	0	0	0	0	1,255
Total Financial Resources	7,498,411	599,663	956,186	5,858,891	5,374,970	20,288,121
Financial Liabilities:						
Deposit liabilities:						
Demand	3,087,941	0	0	0	0	3,087,941
Savings	6,508,078	0	0	0	0	6,508,078
Time	4,809,151	0	0	665,451	556,345	6,030,947
	14,405,170	0	0	665,451	556,345	15,626,966
Total Financial Liabilities	14,405,170	0	0	665,451	556,345	15,626,966
Net Liquidity Surplus (Gap)	**(6,906,597)**	**599,658**	**956,029**	**5,193,459**	**4,818,625**	**4,661,174**

In terms of a liquidity crisis, the Bank has put in place a liquidity contingency plan. Depending on the severity of the liquidity problem, the Bank may choose or be forced to use one or more of its liquidity sources. The Bank periodically tests its ability to draw on the identified sources of back-up liquidity.

(c) Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100 per cent. Per BSP Circular No. 1035, *Amendments to the Basel III Liquidity Coverage Ratio Framework and minimum Liquidity Ratio Framework*, compliance with the 100 per cent LCR minimum requirement. As at December 31, 2022 the Bank's compliance with LCR is at 123.33 per cent.

(d) Net Stable Fund Ratio

On June 6, 2018, the BSP issued Circular No. 1007, Implementing Guidelines on the adoption of *the Basel III Framework on Liquidity Standards – Net stable Funding Ratio and Disclosure Standards*, which provides the implementing guidelines on Net Stable Funding Ratio and disclosure standards that are consistent with the Basel III framework. The NSFR is the ratio of Available Stable Funding (ASF) to the Required Stable Funding (RSF) which should not be lower than 100 per cent. Per BSP Circular No. 1034, *Amendments to the Basel III Framework on Liquidity Standards -Net Stable Funding Ratio and minimum NSFR Framework*, compliance with the 100 per cent NSFR minimum requirement. As at December 31, 2022 the Bank's compliance with NSFR is at 131 per cent.

4.4 Market Risk

Market risk is the risk to earnings and capital arising from adverse movements in factors that affect the market value of instruments, products and transactions in an institution's overall portfolio. The Bank's market risk originates primarily from holding peso-denominated debt securities which are sensitive to interest rate movements. The Bank is not subject to foreign currency risk and equity price risk since it does not have transactions denominated in foreign currency and investments in quoted equity securities.

(a) Trading Activities

Trading market risk exists in the Bank as the values of its trading positions are sensitive to changes in interest rates in the course of market making activities as well as from taking advantage of market opportunities. The Bank adopts the parametric Value at Risk (VaR) methodology (with 99 per cent confidence level and 10-day holding period) to measure trading market risk.

Volatilities are updated daily and are based on historical data for a rolling 260-day period. The RMD reports the VaR utilization and breaches to limit to the Treasury Division on a daily basis and to the ROC and BOD monthly. The VaR figures are back tested daily against hypothetical income statement to validate the robustness of the VaR model and reported to the ROC and BOD quarterly.

VaR Assumptions and Limitations

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. It is based on historical volatilities and assumes that future price movements will follow a statistical distribution.

As VaR is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution, it may not apply to volatile markets. The VaR only estimates the potential loss of the portfolios at the close of each business day. It does not give the precise amount of loss and does not account for any losses that may occur beyond the 99 per cent confidence level. VaR is not designated to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk.

VaR Limit

VaR limit has been set by the BOD subject to annual review. There was no instance for the years ended December 31, 2022 and 2021 that the aggregate daily losses were greater than the VaR limit.The Bank's VaR statistics follow (in thousands):

	2022	**2021**
December 31	10,644	87
Year to date average	5,337	391
High	11,162	1,347
Low	2,450	0

(b) Non-trading Activities

Interest Rate Risk

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

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of "repricing gap" analysis using their repricing characteristics. To evaluate earnings exposure, interest rate-sensitive liabilities in each time band are subtracted from the corresponding interest rate-sensitive assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one-year period gives the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Positive gap, on the other hand, occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

In period of rising interest rates, a positive gap is an advantage as assets are refinanced at increasing higher interest rates thereby increasing the net interest margin. However, in period of falling interest rates, a positive gap would restrain the growth of net interest income.

The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from interest rate movement and such is compared with the limit set by the BOD on the level of earnings at risk (EaR) exposure deemed tolerable to the Bank. Compliance to the EaR limit is monitored monthly by the RMD. This EaR computation is accomplished monthly, with a quarterly stress test.

The following tables below sets forth the repricing gap position of the Bank (in thousands).

	2022				
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Assets:					
Due from BSP	1,065,000	0	0	0	1,065,000
Loans receivables	820,258	948,038	849,134	2,334,444	4,951,874
Total financial assets	1,885,258	948,038	849,134	2,334,444	6,016,874
Financial Liability –					
Time deposits	2,278,619	844,626	193,111	531,553	3,847,909
Repricing Gap	**(393,361)**	**103,412**	**656,023**	**1,802,891**	**2,168,965**

	2021				
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Assets:					
Due from BSP	3,050,213	0	0	0	3,050,213
Loans receivables	897,086	996,683	825,635	2,118,185	4,837,589
Total financial assets	3,947,299	996,683	825,635	2,118,185	7,887,802
Financial Liability –					
Time deposits	3,250,702	1,353,037	264,083	663,651	5,531,473
Repricing Gap	**696,597**	**(356,354)**	**561,552**	**1,454,534**	**2,356,329**

Interest Rate Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's mark-to-market gain/loss on financial assets at FVTPL and equity arising from mark-to-market gain/loss on FVOCI (amounts in millions).

	Impact of Changes in Interest Rates on Mark-to-Market Gain / Loss on Financial Assets at FVTPL*							
	2022				2021			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVTPL	4.40	2.13	-2.29	-4.52	0.15	0.07	-0.08	-0.15

**There is no other impact on the Bank's equity other than those already affecting the statements of income.*

	Impact of Changes in Interest Rates on Equity**							
	2022				2021			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	50	100
Change in mark-to-market gain / loss Financial Asset at FVOCI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

***The impact on the Bank's equity already excludes the impact on transactions affecting the statements of income.*

4.5 Operational Risk

As for operational risk, the Bank has completed the bankwide Operational Risk and Control Self-Assessment in support of the enterprise risk management framework of the Bank. RMD conducts a risk awareness training to new employees and a refresher course to existing employees. The seminar covers an introduction to all types of risks that the Bank is exposed to with focus on operational risk, information technology, and information security.

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss.

Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated as follows:

- Each major business line has an embedded Risk Officer Designate who acts as a point person for the implementation of various operational risk tools. The Risk Officer Designates attend annual risk briefings conducted by RMD to keep them up-to-date with different operational risk issues, challenges and initiatives.
- With ROC's bottom-up self-assessment process, which is conducted at least annually, areas with high-risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve

as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

5 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The breakdown of the Bank's risk-weighted assets as at December 31, 2022 and 2021 as reported to the BSP follows (in thousands):

	Without BSP Relief 2022	With BSP Relief 2022	With BSP Relief 2021
Credit risk-weighted assets	12,190,573	12,554,264	12,452,897
Market-risk weighted assets	46,583	46,583	6
Operational risk-weighted assets	2,326,292	2,326,292	2,377,730
	14,563,448	**14,927,139**	**14,830,633**

5.1 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) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

The Bank has complied with the capital adequacy ratio prescribed by BSP. The Capital Adequacy Ratios (CAR) of the Bank, as reported to the BSP, is shown in the table below and in the succeeding page (in thousands):

	2022 w/out relief	2022 with relief	2021 with relief
Qualifying Capital			
(consists of Tier 1 and Tier 2 Capital, net of required deductions)			
A. Tier 1 Capital			
A1. CET1 Capital			
1. Paid-up common stock	717,249	717,249	717,249
2. Additional paid-in capital	389,508	389,508	389,508
3. Retained earnings	1,052,825	1,297,909	1,357,459
4. Other comprehensive income	(64,649)	(64,649)	(114,536)

	2022 w/out relief	2022 with relief	2021 with relief
less: Regulatory adjustments to CET 1 Capital			
1. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	13,786	13,786	21,421
2. Deferred tax assets	657,514	575,819	782,642
3. Other intangible assets	30,987	30,987	37,885
Total CET1 Capital	**1,392,646**	**1,719,425**	**1,507,732**
A2. Additional CET1 Capital	**0**	**0**	**0**
Total Tier 1 Capital	**1,392,646**	**1,719,425**	**1,507,732**
B. Tier 2 Capital			
1. General loan loss provision, limited to a maximum of 1.00% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	89,294	89,294	84,901
Total Tier 2 Capital	**89,294**	**89,294**	**84,901**
Total Qualifying Capital	**1,481,940**	**1,808,719**	**1,592,633**
Risk Weighted Assets			
1. Total Credit Risk-Weighted Assets	12,190,573	12,554,264	12,452,897
2. Total Market Risk-Weighted Assets	46,583	46,583	6
3. Total Operational Risk-Weighted Assets	2,326,292	2,326,292	2,377,730
Total Risk-Weighted Assets	**14,563,448**	**14,927,139**	**14,830,633**
RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	9.56%	11.52%	10.17%
Capital Conservation Buffer	3.56%	5.52%	4.17%
Tier 1 Capital Ratio	9.56%	11.52%	10.17%
Total Capital Adequacy Ratio	**10.18%**	**12.12%**	**10.74%**

Qualifying capital comprises share capital, surplus including current year profit less deferred income tax. Risk weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. Certain adjustments are made in PFRS-based results and reserves, as prescribed by the BSP.

As at December 31, 2022 and 2021, the Bank has complied with all externally imposed capital requirements by the BSP.

5.2 BASEL III

On January 15, 2013, the BSP issued Circular 781, which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for Universal Banks (UBs) and Commercial Banks (KBs) and their subsidiary banks and quasi-banks (QBs):

- 6.0 per cent Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5 per cent Tier 1 Capital/RWAs, and

- 10.0 per cent Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1 - 'going concern' [(CET1) plus Additional Tier 1(ATI)] and Tier 2 -'gone concern'. A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5 per cent of RWAs, comprised of CET1 capital, has been required of UBs/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in table below. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5 per cent (CET Ratio of 6 per cent plus conservation buffer of 2.5 per cent) and has not complied with the minimum 10 per cent CAR.

Level of CET1 capital	Restriction on Distributions
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25 per cent CET1 capital is met
>7.25%-8.5%	50 per cent of earnings may be distributed
>8.5%	No restriction on the distribution

5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than five per cent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework,* issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

6 CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Value by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown as follows (in thousands):

	2022		2021	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Resources:				
At amortized cost:				
Cash and other cash items	652,251	652,251	757,009	757,009
Due from BSP	1,523,682	1,523,682	3,535,047	3,535,047
Due from other banks	211,530	211,530	171,199	171,199
Interbank Loan Receivables and SPURA	363,471	363,471	466,239	466,239
Loans and receivables – net	11,415,779	10,712,219	10,950,912	10,900,711
Financial assets	314,715	295,320	10,900	12,540
Financial assets at:				
FVTPL	143,433	143,433	599,371	599,371
FVOCI	591,402	591,402	0	0
	15,216,263	**14,493,308**	**16,490,677**	**16,442,116**
Financial Liabilities:				
At amortized cost:				
Deposit liabilities:				
Demand	3,292,768	3,292,768	3,087,941	3,087,941
Savings	6,502,880	6,502,880	6,508,078	6,508,078
Time	4,215,298	4,215,298	6,030,947	6,030,947
Accrued interest and other expenses	141,978	141,978	59,573	59,573
Other liabilities				
Bills purchased – contra	2,904	2,904	1,255	1,255
Managers' check	43,932	43,932	37,144	37,144
Due to PDIC	13,890	13,890	16,030	16,030
Due to Treasury of the Philippines	14,533	14,533	8,983	8,983
Miscellaneous	379,893	348,300	281,470	281,470
	14,608,076	**14,608,076**	**16,031,421**	**16,031,421**

Except for loans and receivables and financial assets at amortized cost with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

6.2 Offsetting of Financial Assets and Financial Liabilities

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

7 FAIR VALUE MEASUREMENT AND DISCLOSURES

The methods and assumptions used by the Bank in estimating the fair value of its financial instruments are:

(a) Cash and Other Cash Items, Due from BSP and Due from Other Banks

The carrying amounts approximate fair value considering that these accounts consist mostly of overnight deposits and other short-term placements.

(b) Financial Assets at FVTPL, Financial Assets at FVOCI and Financial Assets at Amortized Cost

Fair value is generally based on quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Except for financial assets at amortized cost, with fair value disclosed different from their carrying amounts, financial assets at FVTPL and financial assets at FVOCI – government securities, management considers that the carrying amounts approximate the fair value either because those instruments are short-term in nature or the effect of discounting for those maturities more than one year is not material.

(c) Unquoted Equity Securities

Fair value equals its carrying amount since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost, net of impairment.

(d) Loans and Receivables

Fair value of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

(e) Liabilities

The carrying amounts approximate their fair value since these are relatively short-term in nature.

7.1 Fair Value Hierarchy

The Bank uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

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

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

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

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

7.2 Financial Assets Measured at Fair Value

Set out below is the fair value hierarchy of the Bank's financial assets measured at fair value as at December 31 (in thousands):

	2022			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	143,433	0	0	143,433
Financial assets at FVOCI -				
Government debt securities	591,402	0	0	591,402
	734,835	**0**	**0**	**734,835**
	2021			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	599,371	0	0	599,371
Financial assets at FVOCI -				
Government debt securities	0	0	0	0
	599,371	**0**	**0**	**599,371**

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period.

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

7.3 Financial Instruments at Amortized Cost for Which Fair Value is Disclosed

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

The fair values of all other financial assets and financial liabilities are included in Level 3 which are not traded in an active market, and is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.4 Fair Value Measurement for Non-financial Assets

(a) Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31.

			2022	
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	506,362,310	0	506,362,310
Building	0	0	412,137,951	412,137,951
Assets Held-for-sale	0	0	23,744,862	23,744,862
	0	**506,362,310**	**435,882,813**	**942,245,123**

			2021	
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	525,695,115	0	525,695,115
Building	0	0	575,100,963	575,100,963
Assets Held-for-sale	0	0	32,459,011	32,459,011
	0	**525,695,115**	**607,559,974**	**1,133,255,089**

The fair value of the Bank's investment properties and assets held-for-sale is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and assets held-for-sale, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The Level 2 fair values of land and buildings under Investment Properties account were derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

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

(b) Other Fair Value Information

The reconciliation of the carrying amounts of investment properties and assets held-for-sale included in Levels 2 and 3 are presented in Notes 13 and 14.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 2 and 3 fair value hierarchy in 2022 and 2021.

8 CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents were as follows:

	2022	2021
Cash and other cash items	652,251,247	757,009,383
Due from BSP	1,523,681,596	3,535,047,206
Due from other banks	211,530,336	171,199,177
Securities Purchased under Resale Agreements (SPURA)	363,471,436	466,238,870
	2,750,934,615	**4,929,494,636**

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of teller, including automated teller machines. Cash items consist of coins and checks and cash items (other than currency on hand), such as checks drawn on other banks and other items received after the Bank's clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of demand deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims, and special deposit. The special deposit pertains to overnight and time deposit accounts. Interest rates on these special deposits range from 1.50 per cent to 6.60 per cent per annum in 2022 and 1.50 per cent to 2.00 per cent in 2021. Interest income earned on the placement made with BSP amounted to P41.06 million in 2022 and P59.79 million in 2021 and is presented as part of Interest income on Due from BSP and Other Banks account in the statement of income.

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

	2022	2021
Commercial banks:		
Savings	5,055,455	10,305,295
Demand	29,481,947	25,028,132
	34,537,402	35,333,427
Government banks:		
Savings	139,181,736	82,790,662
Demand	37,811,198	53,075,088
	176,992,934	135,865,750
	211,530,336	**171,199,177**

Interest rates on these deposits range from 0.05 to 0.10 per cent per annum in 2022 and 0.05 per cent to 0.15 per cent per annum in 2021. Interest income earned on the placements made with other banks amounted to P96,836 in 2022 and P132,377 in 2021 and is presented as part of Interest income on Due from BSP and Other Banks account in the statement of income.

SPURA are lending to counterparties collateralized by government securities with maturities of less than three months from placement dates and earn annual interest of 2.00 per cent to 5.50 per cent in 2022 and 2.00 per cent in 2021. Interest income from SPURA amounted to P10.42 million in 2022 and P10.36 million in 2021 and is presented as Interest income from securities purchased under resale agreements account in the statement of income.

9 TRADING AND INVESTMENT SECURITIES

This account consist of:

9.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at December 31, 2022 and 2021 are composed of Philippine peso-denominated government debt securities amounting to P143.43 million and P599.37

million, respectively. These debt securities classified as financial assets at FVTPL earn annual interest at rates ranging from 1.71 per cent to 5.25 per cent in 2022 and 2.59 per cent to 6.38 per cent in 2021 (see Note 9.4). All financial assets at FVTPL are held for trading.

For the years ended December 31, 2022 and 2021, net trading and securities gains (losses) in the statements of income resulted from:

	2022	2021
Net realized gains (losses)	1,981,443	53,241,439
Net unrealized gains (losses)	(7,251,334)	(565,949)
	(5,269,891)	**52,675,490**

9.2 Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of the following:

	2022	2021
Government debt securities	591,401,609	0
Allowance for impairment losses	0	0
	591,401,609	**0**

Financial Assets at FVOCI consist of fixed-rate treasury notes issued by the Philippine government and corporate bonds. Interest rate of 2.60 per cent to 6.33 per cent in 2022 and 6.25 per cent in 2021. (see Note 9.4)

The details of net unrealized fair value gains (losses) on Financial Assets at FVOCI follow (see Note 25.2):

	2022	2021
Balance at beginning of the year	0	656,113
Net Unrealized gains (loss) recognized as other comprehensive income	(4,803,455)	(656,113)
Balance at end of year	**(4,803,455)**	**0**

9.3 Financial Assets at Amortized Cost

Financial assets at amortized cost consist of securities which bear nominal annual rates of 4.63 per cent to 18.25 per cent in 2022 and 6.25 per cent to 18.25 per cent in 2021. These securities have maturity of beyond two years from the end of the reporting periods. The account consists of the following:

	2022	2021
Amortized Cost-Corporate bonds	10,000,000	10,000,000
Amortized Cost-FXTN	301,000,000	1,000,000
Unamortized Discount/Premium	3,814,508	0
Allowance for Credit Losses	(100,000)	(100,000)
Balance at the end of year	**314,714,508**	**10,900,000**

9.4 Interest Income on Trading and Investment Securities

For the years ended December 31, 2022 and 2021, interest income on trading and investment securities in the statements of income follows:

	Note	2022	2021
Financial assets at:			
Amortized cost	9.3	12,924,287	9,212,546
FVTPL	9.1	18,768,484	9,430,222
FVTOCI	9.2	34,417,174	617,547
		66,109,945	**19,260,315**

10 LOANS AND RECEIVABLES

This account consists of:

	Note	2022	2021
Loans and discounts:			
Commercial		5,096,545,657	4,736,117,630
Consumption		4,151,386,335	3,872,139,379
Real estate		3,142,296,561	3,181,457,920
Others		447,446,935	844,467,589
		12,837,675,488	12,634,182,518
Accrued interest receivable		180,146,709	200,859,345
Accounts receivable		223,217,358	74,522,457
Sales contract receivable		184,535,928	37,084,703
Bills purchased		2,904,101	1,255,178
Unquoted debt securities		339,339	501,145
		13,428,818,923	12,948,405,346
Unearned discounts		(5,020,176)	(3,994,015)
Allowance for credit losses	16	(2,008,019,315)	(1,993,499,292)
		11,415,779,432	**10,950,912,039**

Other loans and discounts include industrial, agriculture and other type of loans.

Effective interest rates on loans and discounts range from 7.00 per cent to 12.00 per cent in 2022 and 6.50 per cent to 12.00 per cent in 2021.

Unquoted debt securities pertain to a 10-year bond of the Land Bank of the Philippines (LBP). The LBP bonds have various maturity dates starting from December 5, 2012 to August 17, 2028. Interest rates on the LBP bonds are based on 91-day treasury-bill rates. As at December 31, 2022, no unearned discounts on unquoted debt securities.

Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, claims such as insurance proceeds, advances to officers and employees and other miscellaneous receivables.

Accrued interest receivable consists of accrued interest on:

	2022	2021
Loans and discounts	176,469,532	199,818,722
Financial assets:		
Amortized cost	891,642	28,308
FVTOCI	881,667	0
FVTPL	1,139,444	576,221
Sales contract receivable	210,938	64,893
Deposits with BSP and other banks	549,966	369,822
Unquoted debt securities	3,520	1,379
	180,146,709	**200,859,345**

Interest income on loans and receivables consists of:

	2022	2021
Loans and discounts	798,977,767	999,498,078
Unquoted debt securities	8,715	6,940
Sales contracts receivable	5,272,268	2,678,264
	804,258,750	**1,002,183,282**

Interest Income from restructured loans amounted to P34.63 million and P30.72 million in 2022 and 2021, respectively.

Sales contracts receivable arise mainly from the sale of foreclosed properties booked under the Investment Properties and Assets Held-for-Sale accounts.

The following table shows information relating to loans and discounts classified as to secured and unsecured (in thousands):

	2022	2021
Loans secured by:		
Real estate mortgage	3,558,486	3,002,140
Chattel mortgage	1,192,222	1,718,437
Deposits	109,114	56,541
	4,859,822	4,777,118
Unsecured	7,980,758	7,858,320
	12,840,580	**12,635,438**

11 BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2022						
Cost	1,011,711	42,151,998	189,015,530	169,529,176	105,549,707	507,258,122
Accumulated Depreciation and amortization	0	(24,777,998)	(161,365,158)	(102,263,122)	(42,799,651)	(331,205,929)
Allowance for Losses	0	0	(325,918)	0	0	(325,918)
Net carrying amount	**1,011,711**	**17,374,000**	**27,324,454**	**67,266,054**	**62,750,056**	**175,726,275**
December 31, 2021						
Cost	1,011,711	42,042,698	273,881,482	225,294,127	162,272,330	704,502,348
Accumulated Depreciation and amortization	0	(21,979,234)	(227,352,385)	(129,994,980)	(47,234,295)	(426,560,894)
Net carrying amount	**1,011,711**	**20,063,464**	**46,529,097**	**95,299,147**	**115,038,035**	**277,941,454**
January 1, 2021						
Cost	1,011,711	42,042,698	283,017,148	232,790,603	159,144,329	718,006,488
Accumulated Depreciation and amortization	0	(22,029,968)	(236,286,994)	(137,466,107)	0	(395,783,069)
Net carrying amount	**1,011,711**	**20,012,731**	**46,730,154**	**95,324,496**	**159,144,329**	**322,223,420**

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

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2022 net of accumulated depreciation and amortization	1,011,711	20,063,464	46,529,097	95,299,147	115,038,035	277,941,454
Additions	0	109,300	9,640,253	5,521,618	2,665,663	17,936,834
Transfer and Reclassification	0	0	(11,064,586)	(299,999)	(0)	(11,364,585)
Disposal	0	0	(1,131,863)	0	(12,153,991)	(13,285,854)
Depreciation and amortization charges for the year	0	(2,798,764)	(16,322,529)	(33,254,712)	(42,799,651)	(95,175,656)

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Allowance for losses for the year	0	0	(325,918)	0	0	(325,918)
Balance at December 31, 2022 net of accumulated depreciation and amortization	**1,011,711**	**17,374,000**	**27,324,454**	**67,266,054**	**62,750,056**	**175,726,275**
Balance at January 1, 2021 net of accumulated depreciation and amortization	1,011,711	23,411,578	53,219,606	116,503,957	159,448,909	353,595,761
Additions	0	0	13,956,297	6,896,298	3,915,097	24,767,692
Transfer and Reclassification	0	(670,000)	(176,289)	(25,348)	(1,091,676)	(1,963,313)
Disposal	0	0	(1,019,346)	(285,986)	0	(1,305,332)
Depreciation and amortization charges for the year	0	(2,678,114)	(19,451,171)	(27,789,774)	(47,234,295)	(97,153,354)
Balance at December 31, 2021 net of accumulated depreciation and amortization	**1,011,711**	**20,063,464**	**46,529,097**	**95,299,147**	**115,038,035**	**277,941,454**

As at December 31, 2022 and 2021, the original cost of fully depreciated bank premises, furniture, fixtures and equipment still in use by the Bank amounted to P141.88 million and P188.55 million respectively.

As at December 31, 2022 and 2021, there were no idle and retired bank premises, furniture, fixtures and equipment.

Gain on disposal of bank premises, furniture, fixtures and equipment amounted to P7.68 million and P1.28 million in 2022 and 2021, respectively, and is presented under Miscellaneous income under Other Operating Income section of the statements of income. (See Note 22).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50 per cent of the respective unimpaired capital of the Bank. As of December 31, 2022 and 2021, the Bank has complied with this BSP requirement.

12 LEASES

The Bank leases the land currently occupied by its branches for periods ranging from one to 20 years, renewable upon mutual agreement of the Bank and the lessor under certain terms and conditions. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases of offices, the Bank kept those properties in good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank ensures the leased assets and maintenance fees incurred are in accordance with the lease contracts.

The table below describes the nature of the Bank's leasing activities of right-of-use asset recognized in the statements of financial position.

	Number of rights-of-use assets lease	Range of remaining term	Average remaining lease term	Number of leases with extension	Number of leases with options to purchase	Number of leases with termination options
Offices	50	1-10 years	2.53 years	0	0	50

12.1 Lease Liabilities

There are no lease liabilities and amounts in respect of possible future lease termination options not recognized.

As at December 31, 2022, the Bank has not committed leases which have not commenced yet.

The undiscounted maturity analysis of lease liabilities at December 31, are as follows:

2022	**Within 1 year**	**Two to Five years**	**More than Five years**	**Total**
Lease Payments	6,931,355	49,558,765	31,868,823	88,358,943
Finance Charges	(801,486)	(3,666,756)	(1,533,685)	(6,001,927)
Lease Liability	**6,129,869**	**45,892,009**	**30,335,138**	**82,357,016**

2021	**Within 1 year**	**Two to Five years**	**More than Five years**	**Total**
Lease Payments	5,035,219	117,756,484	35,416,217	158,207,920
Finance Charges	(353,847)	(6,240,480)	(1,689,763)	(8,284,090)
Lease Liability	**4,681,372**	**111,516,004**	**33,726,454**	**149,923,830**

12.2 Lease Payment Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

12.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P57.01 million and P60.32 in 2022 and 2021, respectively. Interest expense in relation to lease liabilities amounted to P6.00 million and P8.28 million and is presented as part of Interest Expense in 2022 and 2021 statements of income.

13 INVESTMENT PROPERTIES

Investment properties consist of various land, and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized as part of Gain/(Loss) on Sale and Foreclosure of Assets - net account in the statements of income.

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

	Land	**Buildings and Improvements**	**Total**
December 31, 2022			
Cost	506,362,310	412,137,951	918,500,261
Accumulated Depreciation	0	(87,961,400)	(87,961,400)
Accumulated Impairment	(19,327,553)	(2,717,118)	(22,044,671)
Net carrying amount	**487,034,757**	**321,459,433**	**808,494,190**
December 31, 2021			
Cost	525,695,115	575,100,963	1,100,796,078
Accumulated Depreciation	0	(171,231,718)	(171,231,718)
Accumulated Impairment	(22,229,051)	(2,717,118)	(24,946,169)
Net carrying amount	**503,466,064**	**401,152,127**	**904,618,191**
January 1, 2021			
Cost	480,684,708	426,591,724	907,276,432
Accumulated Depreciation	0	(138,386,041)	(138,386,041)
Accumulated Impairment	(14,077,537)	(3,695,779)	(17,773,316)
Net carrying amount	**466,607,171**	**284,509,904**	**751,117,075**

Reconciliations of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 as follows:

	2022			2021		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	525,695,115	575,100,963	1,100,796,078	480,684,708	426,591,724	907,276,432
Additions	40,512,347	38,640,489	79,152,836	71,643,836	173,496,639	245,140,475
Disposals	(42,357,824)	(213,652,804)	(256,010,628)	(26,633,429)	(24,987,400)	(51,620,829)
Adjustments	(17,487,328)	12,049,303	(5,438,025)	0	0	0
Balance at end of year	**506,362,310**	**412,137,951**	**918,500,261**	**525,695,115**	**575,100,963**	**1,100,796,078**
Accumulated depreciation						
Balance at beginning of year	0	171,231,718	171,231,718	0	138,386,041	138,386,041
Depreciation and amortization		25,906,674	25,906,674	0	40,476,887	40,476,887
Disposals	0	(109,176,992)	(109,176,992)	0	(7,631,210)	(7,631,210)
Balance at end of year	**0**	**87,961,400**	**87,961,400**	**0**	**171,231,718**	**171,231,718**
Allowance for impairment and losses						
Balance at beginning of year	22,229,051	2,717,118	24,946,169	14,077,537	3,695,779	17,773,316
Provision for impairment loss	(1,143,318)	0	(1,143,318)	0	0	0
Adjustments	(1,758,180)	0	(1,758,180)	8,228,514	(103,139)	8,125,375
Disposals	0	0	0	(77,000)	(875,522)	(952,522)
Balance at end of year	**19,327,553**	**2,717,118**	**22,044,671**	**22,229,051**	**2,717,118**	**24,946,169**
Carrying amount at the end of year	**487,034,757**	**321,459,433**	**808,494,190**	**503,466,064**	**401,152,127**	**904,618,191**

The aggregate fair value of the investment properties amounted to P1.40 billion and P1.34 billion as at December 31, 2022 and 2021, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers.

The fair values of the Bank's land under investment properties have been determined in using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, hence, included in the Level 2. On the other hand, the Bank's buildings were derived from the observable recent prices of the reference properties and adjusted based on the property size, zoning and accessibility. Thus, the fair value is included in Level 3 (see Note 7.4).

Direct operating Expenses on investment properties for the bank amounted to P 33.84 million and P22.76 million in 2022 and 2021, respectively and is presented as Litigation under Other Operating Expenses in the statements of income.

In 2022 and 2021, the Bank recognized fair value loss and gain on foreclosure and sale of investment as part of Gain on Sale and Foreclosure of Assets - net account under Other Operating Income section of the statements of income amounting to P34.84 million and P39.77 million, respectively.

The Bank recognized gain on sale of P122.36 million on investment properties in 2022 and loss amounting to P18.33 million in 2021, which are presented as part of Gain on Sale and Foreclosure of Assets - net account under Other Operating Income section of the statements of income.

14 ASSETS HELD-FOR-SALE

This account consists of chattel properties acquired from foreclosure of collaterals during the year such as motorcycles and other vehicles. These properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification.

The changes in the carrying amount of the assets held-for-sale are summarized as follows:

	2022	2021
Beginning balance	27,522,309	79,571,181
Repossessions	90,657,715	86,255,000
Sale and redemption	(95,323,485)	(138,628,872)
	22,856,539	**27,197,309**

As at December 31, 2022 and 2021, allowance for impairment loss on assets-held-for sale amounted to P0.89 million and P4.94 million a respectively (see Note 16).

In 2022 and 2021, the Bank recognized loss on foreclosure of assets-held-for-sale amounting to P22.24 million and P21.86 million, respectively, and is presented as part of Gain on Sale and foreclosure of Assets - net account in the statements of income.

15 INTANGIBLE AND OTHER RESOURCES

This account consists of the following:

	2022	2021
Deferred charges	61,380,606	127,488,684
Deferred assets – car lease	13,447,724	26,611,581
Advance rentals and refundable deposits	27,486,292	19,905,007
Software costs – net	30,986,501	37,885,066
Prepaid expenses	17,759,055	8,085,337
Stationery supplies	958,181	1,315,510
Other Assets-FFE	998,935	753,812
Miscellaneous	3,538,204	5,910,289
	156,555,498	227,955,286
Allowance for impairment loss	(998,314)	(753,145)
	155,557,184	**227,202,141**

Deferred charges include deferred commissions that are directly associated with loans and discounts with customers. The commissions are deferred and amortized over the terms of the related loans, which is typically ranging from 36 to 60 months.

Deferred assets represent leases of vehicles to managerial employees and officers.

Advance rentals and refundable deposits include rental deposits for the lease of the various branches of the Bank from several parties.

The gross carrying amounts of software costs at the beginning and end of 2022 and 2021 is shown below:

	December 31, 2022	December 31, 2021
Cost	78,108,877	63,644,892
Accumulated amortization	(47,122,376)	(25,759,826)
Net carrying amount	**30,986,501**	**37,885,066**

A reconciliation of the carrying amount of software costs at the beginning and end of 2022 and 2021 is shown below.

	2022	2021
Balance at January 1, net of accumulated amortization	37,885,066	47,081,496
Additions	19,004,426	9,225,744
Amortization charges for the year	(23,955,973)	(17,853,754)
Disposal / Reclassification	(1,947,018)	(568,420)
Balance at December 31, net of accumulated amortization	**30,986,501**	**37,885,066**

16 ALLOWANCES FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowances for credit and impairment losses are summarized as follows:

	Note	2022	2021
Balances at beginning of year:			
Loans and receivables	10	1,993,499,292	1,260,412,157
Investment properties	13	24,946,169	17,773,316
Assets held-for-sale	14	4,936,702	4,814,695
Other resources	15	753,145	578,188
		2,024,135,308	1,283,578,356
Credit and impairment losses during the year			
Loans and receivables		30,948,579	193,893,020
Assets held-for-sale		2,000,000	6,900,000
Other resources		273,207	174,957
		33,221,786	200,967,977
Disposals:			
Loans and Receivables		(16,428,556)	0
Investment properties	13	(1,758,180)	(952,522)
Assets held for sale		(6,866,980)	(14,546,152)
		(25,053,716)	(15,498,674)

	Note	2022	2021
Reversals/reclassifications			
Loans and receivables		0	(76,150,543)
Investment properties	13	(1,143,318)	8,125,375
Assets held-for-sale		818,602	7,768,159
Other resources		(28,038)	0
		(352,754)	(60,257,009)
Effect of BSP relief for ACL staggered booking			
Loans and receivables		0	615,344,658
		0	615,344,658
Balances at end of year:			
Loans and receivables	10	2,008,019,315	1,993,499,292
Investment properties	13	22,044,671	24,946,169
Assets held-for-sale	14	888,324	4,936,702
Other resources	15	998,314	753,145
		2,031,950,624	**2,024,135,308**

Presented below is the breakdown of allowance for credit and impairment losses for Loans and Receivable as at December 31, 2022:

	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables:				
Loans and discounts:				
Commercial	23,095,954	197,055,030	1,369,281,334	1,589,432,318
Consumption	31,944,488	7,345,771	177,957,229	217,247,488
Real estate	23,402,817	13,618,932	73,600,764	110,622,513
Others	6,685,551	17,750,340	66,281,105	90,716,996
	85,128,810	**235,770,073**	**1,687,120,432**	**2,008,019,315**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans and discounts in 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial				
Gross carrying amount as at January 1, 2022	1,917,362,651	599,632,018	2,219,122,961	4,736,117,630
New assets originated or purchased	2,572,191,642	0	0	2,572,191,642
Assets derecognized or repaid	(2,132,436,296)	(14,485,011)	(33,997,230)	(2,180,918,537)
Transfers from Stage 1	(396,368,841)	0	0	(396,368,841)
Transfers to Stage 2	0	361,381,974	0	361,381,974
Transfers to Stage 3	0	0	34,986,867	34,986,867
Transfer to Investment Property	0	0	(30,845,078)	(30,845,078)
	1,960,749,156	**946,528,981**	**2,189,267,520**	**5,096,545,657**
ECL allowance as at January 1, 2022 under PFRS 9	19,026,746	114,724,831	1,411,490,652	1,545,242,229
Provisions	0	28,300,000	0	28,300,000
Transfers from Stage 1	0	0	0	0
Transfers to Stage 2	4,069,208	0	(4,069,208)	0
Transfers to Stage 3	0	54,030,199	(54,030,199)	0

	Stage 1	Stage 2	Stage 3	Total
Amounts written off	0	0	15,890,089	15,890,089
	23,095,954	**197,055,030**	**1,369,281,334**	**1,589,432,318**
Consumption				
Gross carrying amount as at January 1, 2022	2,792,328,265	129,478,537	950,332,577	3,872,139,379
New assets originated or purchased	2,307,857,666	0	0	2,307,857,666
Assets derecognized or repaid	(1,744,279,138)	(60,965,697)	(95,519,584)	(1,900,764,419)
Transfers to (from) Stage 1	(160,993,004)	160,993,004	0	0
Transfers to (from) Stage 2	0	(123,430,200)	123,430,200	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	(465,003)	(2,842,910)	(110,345,078)	(113,652,991)
Amounts written off	0	0	(14,193,300)	(14,193,300)
	3,194,448,786	**103,232,734**	**853,704,815**	**4,151,386,335**
ECL allowance as at January 1, 2022 under PFRS 9	27,805,678	12,956,358	192,437,257	233,199,293
Provisions (recovery)	0	0	0	0
Transfers to (from) Stage 1	4,138,810	(4,138,810)	0	0
Transfers to (from) Stage 2	0	(1,471,777)	1,471,777	0
Transfers to (from) Stage 3	0	0	(1,758,505)	(1,758,505)
Amounts written off	0	0	(14,193,300)	(14,193,300)
	31,944,488	**7,345,771**	**177,957,229**	**217,247,488**
Real estate				
Gross carrying amount as at January 1, 2022	2,505,412,696	96,442,227	579,602,997	3,181,457,920
New assets originated or purchased	330,103,916	0	0	330,103,916
Assets derecognized or repaid	(291,580,557)	(24,854,344)	(45,416,855)	(361,851,756)
Transfers to (from) Stage 1	(203,654,365)	203,654,365	0	0
Transfers to (from) Stage 2	0	(76,094,884)	76,094,884	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(7,413,519)	(7,413,519)
	2,340,281,690	**199,147,364**	**602,867,507**	**3,142,296,561**
ECL allowance as at January 1, 2022 under PFRS 9	24,773,198	8,487,283	87,497,725	120,758,206
Provisions	0	0	0	0
Transfers to Stage 1	(1,370,381)	1,370,381	0	0
Transfers from Stage 2	0	3,761,268	(3,761,268)	0
Transfers from Stage 3	0	0	(10,135,693)	(10,135,693)
	23,402,817	**13,618,932**	**73,600,764**	**110,622,513**
Others				
Gross carrying amount as at January 1, 2022	944,128,473	75,036,508	139,024,292	1,158,189,273
New assets originated or purchased	923,015,321	0	124,422,961	1,047,438,282
Assets derecognized or repaid	(1,139,560,796)	(12,382,091)	(13,198,334)	(1,165,141,221)
Transfers from Stage 1	(143,108,646)	143,108,646	0	0
Transfers to Stage 2	0	0	0	0
Transfers to Stage 3	0	(33,474,214)	33,474,214	0
Transfer to Investment Property	0	0	(2,235,303)	(2,235,303)
	584,474,352	**172,288,849**	**281,487,830**	**1,038,251,031**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2022 under PFRS 9	12,244,501	13,125,254	68,929,810	94,299,565
Provisions	0	0	0	0
Transfers to Stage 1	(5,972,352)	4,625,086	0	(1,347,266)
Transfers to Stage 2	0	0	0	0
Transfers from Stage 3	413,402	0	(413,402)	0
Amounts written off	0	0	(2,235,303)	(2,235,303)
	6,685,551	**17,750,340**	**66,281,105**	**90,716,996**

The Bank's trading and investment securities have no impairment losses during the year.

17 DEPOSIT LIABILITIES

This account consists of the following deposits:

	2022	2021
Demand	3,292,768,200	3,087,941,488
Savings	6,502,880,443	6,508,077,857
Time	4,215,297,693	6,030,947,090
	14,010,946,336	**15,626,966,435**

Savings deposit liabilities consist of regular and special savings accounts. The regular savings accounts bears annual interest rate of 0.30 per cent in 2022 and 2021; The special savings account bears annual interest rate ranging from 0.30 per cent to 0.40 per cent in 2022 and 0.40 per cent to 0.70 per cent in 2021. While the time deposits bear annual interest rate ranging from 0.38 per cent to 2.31 per cent in 2022 and 2021.

Details of interest expense on deposit liabilities follow:

	2022	2021
Demand	8,487,677	8,116,721
Savings	22,229,038	21,467,221
Time	96,954,734	131,282,871
	127,671,449	**160,866,813**

Under BSP Circular No. 997 and 1004, Series of 2018, the MB approved the one-percentage-point increase in the reserve requirements of thrift banks applicable to the Bank, to three per cent in 2020. As at December 31, 2022 and 2021, the Bank is in compliance with such regulations.

Liquidity and statutory reserves pertain to Due from BSP amounting to P1.52 billion and P3.54 billion as of Dec. 31, 2022 and 2021, respectively (see Note 8). The Bank is in compliance with such regulations as of December 31, 2022 and 2021.

The maturity profile of deposit liabilities is disclosed in Note 4.3.

18 ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

	2022	2021
Accrued interest payable	11,797,933	8,662,263
Accrued other taxes and licenses	15,546,859	14,617,219
Insurance payable to PDIC	13,889,731	16,029,989
Outside services and utilities	12,225,470	13,363,337
Staff benefits	66,318,887	6,319,381
Salaries of seconded employees	6,813,102	932,186
Others	29,276,443	15,678,237
	155,868,425	**75,602,612**

Others account includes human resource activities, repairs and maintenance, freight and communication. Human resource activities include expenses for the Bank's initiatives and performance bonuses given to the employees of the bank.

19 OTHER LIABILITIES

This account consists of:

	Note	2022	2021
Dividends payable	25.1	21,802,863	22,310,455
Accounts payable		159,495,463	122,815,588
Managers checks and demand drafts outstanding		51,967,934	46,163,769
Withholding taxes payable		6,740,679	5,786,265
Due to the Treasurer of the Philippines		14,532,854	8,983,443
SSS, Medicare, ECC, compensation premiums		3,471,097	3,347,983
Deferred credits		39,292,318	43,674,838
Lease Liabilities	12.1	82,357,016	149,923,830
Miscellaneous		58,697,856	60,361,732
		438,358,080	**463,367,903**

Majority of the outstanding manager’s checks as of December 31, 2022 pertains to loan releases near year-end and various dealers and salesman incentive fees which were presented for payment subsequent to December 31, 2022. Accordingly, significant part of managers checks outstanding as of December 31, 2022 and 2021 was already reversed on the succeeding quarter. As at December 31, 2022 and 2021, deferred credits include unearned service fees related to loans and receivables.

Miscellaneous include payables for the cost of personal and commercial checkbooks and deposit for keys on safety deposit boxes.

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	2022			2021		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources						
Cash and other cash items	652,251	0	652,251	757,009	0	757,009
Due from BSP	1,523,682	0	1,523,682	3,535,047	0	3,535,047
Due from other banks	211,530	0	211,530	171,199	0	171,199
SPURA	363,471	0	363,471	466,239	0	466,239
Financial assets:						
FVTPL	143,433	0	143,433	599,371	0	599,371
FVTOCI	591,402		591,402	0	0	0
Amortized Cost	0	314,715	314,715	0	10,900	10,900
Loans and discounts - gross	3,873,052	8,964,623	12,837,675	3,877,970	8,756,215	12,634,185
Unquoted debt securities - gross	56	283	339	162	339	501
Accrued interest receivable	180,147	0	180,147	200,859	0	200,859
Sales contract receivables	350	184,186	184,536	1,304	35,781	37,085
Accounts receivable	223,217	0	223,217	74,522	0	74,522
Bills purchased	2,904	0	2,904	1,255	0	1,255
Unearned discount	(5,020)	0	(5,020)	(3,994)	0	(3,994)
	7,760,475	9,463,807	17,224,280	9,680,943	8,803,235	18,484,178
Allowance for credit and impairment losses	0	(2,008,019)	(2,008,019)	0	(1,993,499)	(1,993,499)
	7,760,475	7,455,788	15,216,263	9,680,943	6,809,736	16,490,679
Non-Financial Resources						
Bank premises, furniture and fixtures	0	175,726	175,726	0	277,941	277,941
Assets held-for-sale - net	22,857	0	22,857	27,197	0	27,197
Investment properties - net	0	808,494	808,494	0	904,618	904,618
Intangible and other resources – net	0	155,557	155,557	0	227,202	227,202
Deferred tax assets	0	654,175	654,175	0	672,845	672,845
	22,857	1,793,952	1,816,809	27,197	2,082,606	2,109,803
	7,783,332	**9,249,740**	**17,033,072**	**9,708,140**	**8,892,342**	**18,600,482**
Financial Liabilities						
Deposit liabilities	12,915,499	1,095,447	14,010,946	14,405,170	1,221,796	15,626,966

	2022			2021		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Manager's checks and demand drafts outstanding	51,968	0	51,968	46,164	0	46,164
Accrued interest and other expenses	41,235	0	41,235	39,309	0	39,309
Retirement Liability	3,795	0	3,795	72,531	0	72,531
Other liabilities	386,390	0	386,390	417,205	0	417,205
	13,398,888	1,095,447	14,494,335	14,980,379	1,221,796	16,202,175
Non-Financial Liabilities						
Accrued interest and other expenses	114,634	0	114,634	36,293	0	36,293
Income tax payable	1,404	0	1,404	7,785	0	7,785
	116,038	0	116,038	44,078	0	44,078
	13,514,926	**1,095,447**	**14,610,373**	**15,024,457**	**1,221,796**	**16,246,253**

21 EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Note	2022	2021
Salaries and wages		377,387,589	341,609,870
Fringe benefits		81,097,734	83,161,221
Retirement - defined benefit plan	21.2	33,662,519	43,419,134
Short-term medical benefits		7,188,837	9,427,754
		499,336,679	**477,617,979**

21.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a tax-qualified, non-contributory defined benefit retirement plan that is being administered by a trustee covering all regular employees (see Note 26.4).

The normal retirement age is 65 with a minimum of five years of credited service. The plan also provides for an early retirement at age 60 with a minimum of 15 years of credited service and late retirement after age 60, both subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 150 per cent of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2022.

The amounts of retirement benefit obligation recognized in the statement of financial position is determined as follows:

	2022	2021
Present value of retirement obligation	195,829,747	247,637,648
Fair value of plan assets	(192,034,339)	(175,106,891)
	3,795,408	**72,530,757**

The movements of the present value of defined benefits obligation of the Bank follow:

	2022	2021
Balance at beginning of year	247,637,648	283,394,806
Current service cost	29,890,919	37,512,162
Interest expense	12,877,158	11,619,187
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(79,057,186)	(50,831,701)
Experience adjustment Benefits paid	(6,270,032)	(25,948,414)
Benefits paid	(9,248,760)	(8,108,392)
Balance at end of year	**195,829,747**	**247,637,648**

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

The actual return on plan assets amounted to a loss of P7.486 million in 2022 and gain of P473,827 in 2021.

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

	2022	2021
Cash and cash equivalents	28,133,031	93,507,080
Debt securities	162,038,575	74,192,790
Equity securities	1,805,123	6,794,147
Others	57,610	612,874
	192,034,339	**175,106,891**

The fair values of the above debt and equity securities are determined based on quoted market prices in active market (classified as Level 1 of the fair value hierarchy).

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

	2022	2021
Reported in statement of income		
Current service cost	29,890,919	37,512,162
Net interest expense:		
Interest expense	12,877,158	11,619,187
Interest income	(9,105,558)	(5,712,215)
	33,662,519	**43,419,134**
Reported in other comprehensive income		
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(79,057,186)	(50,831,701)
Experience adjustment	(6,270,032)	(25,948,414)
Return on plan assets (excluding amounts included in net Interest expense)	16,591,869	5,238,388
	(68,735,349)	**(71,541,727)**

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to statement of income.

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

	2022	2021
Discount rates	7.40%	5.20%
Expected rate of salary increases	6.00%	6.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 16 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(c) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2022			
Discount rate	+/-0.50%	(13,508,039)	14,932,722
Salary growth rate	+/-0.50%	14,385,944	(13,140,862)
December 31, 2021			
Discount rate	+/-0.50%	(19,307,137)	21,555,286
Salary growth rate	+/-0.50%	20,417,970	(18,510,651)

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

(ii) Asset-liability Matching Strategies

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Division of the parent bank, in compliance with the BSP requirements.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P3.79 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 16 years' time when a significant number of employees is expected to retire.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 16 years.

The Bank expects to contribute P22.82 million to the retirement plan in 2023.

21.3 Retirement Benefits of Key Management Personnel

The Bank's retirement benefits are covered by the parent bank in as much as the officers and employees of the Bank are seconded. The parent bank has separate funded contributory defined contribution retirement plan. Under the retirement plan, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements.

22 MISCELLANEOUS INCOME

This account consists of:

	Note	2022	2021
Rental income		214,640	1,389,893
Gain on sale of FA-FVOCI		541,700	1,122,890
Bancassurance Income		2,738,050	2,250,000
Recovery of Written off Accounts		3,079,388	3,609,606
Gain on sale of bank premises, furniture, fixtures and equipment	11	7,678,813	1,279,733
Others		8,110,736	4,222,277
		22,363,327	**13,874,399**

Others includes income on checkbook re-order amounting to P1.19 million and P3.91 million in 2022 and 2021 respectively.

23 MISCELLANEOUS EXPENSES

This account consists of:

	2022	2021
Communications	31,657,144	37,645,555
Stationery and supplies used	5,266,768	9,016,835
Appraisal expenses	2,654,742	3,347,338
Banking and supervision fees	5,394,773	6,210,779
Freight expenses	2,991,966	3,562,190
Fines, penalties and other charges	25,166,406	22,305,893

	2022	2021
Advertising and publicity	817,225	553,089
Commission fees	15,856,941	15,279,520
Semi-Expendable Items	3,499,457	560,829
Others	2,055,517	2,251,829
	95,360,939	**100,733,857**

Others include membership fees and dues, periodicals and magazines subscriptions.

24 TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and licenses under Other Operating Expenses section of the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). The Bank's liability for GRT and DST is based on the related regulations issued by the authorities.

Provision for income tax includes corporate income tax, as discussed in the succeeding sections, final taxes paid at the rate of 20 per cent, which is final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax (RCIT) rate applicable is 25 per cent. Interest allowed as deductible expense is reduced by an amount equivalent to certain percentage of interest income subject to final tax. Minimum corporate income tax (MCIT) of one per cent on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future regular income tax liability for the next three consecutive years. In addition, any net operating loss carry over is allowed as a deduction from taxable income in the next three years.

The components of tax expense as reported in the statements of income are as follows:

	2022	2021
Reported in income statement:		
Current tax expense:		
RCIT at 25%	3,965,554	24,739,893
Adjustment in 2020 income taxes Rate due to Create	0	(4,550,217)
Final tax at 20 per cent	23,770,779	18,015,000
	27,736,333	38,204,676
Deferred tax income relating to origination and reversal of temporary differences	(10,531,155)	(37,216,644)
	17,205,178	**988,032**
Reported in other comprehensive loss		
Deferred tax income relating to origination and reversal of temporary differences	**(17,183,837)**	**(17,885,432)**

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense attributable to continuing operations follows:

	2022	2021
Tax on pretax profit at 25 per cent	13,690,961	1,393,373
Adjustment in 2020 income taxes Rate due to Create	0	(4,550,217)
Adjustments for income subjected to lower income tax rates	(5,942,695)	(4,503,750)
Tax effects of:		
Non-deductible expense	495,361	8,524,237
Non-taxable income	8,961,551	124,389
	17,205,178	**988,032**

The components of the net deferred tax assets follow:

	Statements of Financial Position		Statements of Income		Statements of Comprehensive Income	
	2022	2021	2022	2021	2022	2021
Deferred tax assets:						
Allowance for impairment	646,312,071	649,693,443	4,198,308	35,093,994	0	0
Accumulated depreciation on investment properties	49,387,497	42,807,929	6,579,568	10,119,222	0	0
Post-employment defined benefit obligation	948,852	18,132,689	0	0	(17,183,837)	(17,885,432)
Unrealized losses on mark to market of FVTPL	2,095,808	141,487	1,954,321	(135,328)	0	0
Lease Liabilities	20,589,254	37,480,958	(16,891,704)	(3,301,460)	0	0
Unearned Bancassurance	8,869,093	9,553,606	(684,513)	0	0	0
Excess MCIT	2,691,324	0	0	0	0	0
Past service cost	0	0	0	(438,340)	0	0
	730,893,899	757,810,112	(4,844,020)	41,338,088	(17,183,837)	(17,885,432)
Deferred tax liabilities:						
Right –of-use asset	(15,687,514)	(28,759,509)	13,071,995	2,071,023	0	0
Accumulated unrealized gain on foreclosure	(59,041,224)	(55,476,700)	3,564,524	(5,463,754)	0	0
Past service cost	(1,990,056)	(728,713)	(1,261,344)	(728,713)	0	0
	(76,718,794)	(84,964,922)	15,375,175	(4,121,444)	0	0
Net Deferred Tax Assets	**654,175,105**	**672,845,190**				
Deferred Tax Income			**10,531,155**	**37,216,644**	**(17,183,837)**	**(17,885,432)**

The Bank is subject to the MCIT which is computed at one per cent of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported in 2021 as the RCIT was higher than MCIT.

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

25 EQUITY

25.1 Capital Stock

As at December 31, 2022 and 2021, the Bank has a total authorized capital stock consisting of 8,000,000 shares at P 100 par value per share. As of those dates, total issued and outstanding shares consists of 7,172,490 shares amounting to P717.25 million. There were no movements in the paid-up capital and issued for both years.

On July 9, 2014, the Bank's BOD approved the declaration of cash dividend amounting to P1.00 billion or P139.72 per share payable to stockholders of record as at December 31, 2013. Such cash dividend declaration was approved by the BSP on October 28, 2014.

On November 27, 2017, the Bank's BOD approved the declaration of cash dividend amounting to P500.00 million to stockholders of record as at December 31, 2016 and is to be paid in two tranches on December 15, 2018 for the amount of P250.00 million and on December 15, 2019 for the amount of P250.00 million. No dividends were declared for 2022.

On January 4, 2021, the Bank received a letter dated 20 November 2020 from the Governance Commission for Government-Owned and Controlled Corporation (GCG) categorizing the UCPB Savings Bank (UCPBS) as a Government Financial Institution (GFI), and thus covered by Republic Act No. 9656 (Dividends Law)

On February 23, 2021, UCPBS wrote to the Department of Finance (DOF) requesting that UCPBS be exempted from declaring and remitting at least 50 per cent of its annual net earnings as cash, stock, or property dividends to the National Government on the followings grounds pursuant to 2016 Implementing Rules and Regulations (2016 IRR) issued by the DOF:

First, the IRR provides that the rules shall apply to all Government-Owned or Controlled Corporations[1] ("GOCCs"), which shall include financial institutions owned or controlled by the National Government but shall exclude Acquired Asset Corporations[2]. The Bank submits that UCPBS is an Acquired Asset Corporation, and thus excluded from the

[1] "Government-Owned or -Controlled Corporations ("GOCCs")", refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the National Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least 51% of its capital stock. This term shall also include financial institutions owned or controlled by the National Government but shall exclude acquired asset corporations, state universities and colleges. (Sec. 3 G)

[2] Acquired Asset Corporation" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by Government through a final judgment in sequestration proceedings; or (2) which is a subsidiary of a government corporation organized exclusively to own or manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time. (Sec. 3 B)

GOCCs required to declare and remit dividends to the National Government.

Second, Section 7 (b) of the IRR allows a downward adjustment in the Dividend rate below the minimum 50 per cent in the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity; (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and, (iv) for GOCCs governed by the Batas Pambansa Blg. 68 (or the Corporation Code of the Philippines), where declaration and remittance of Dividends at the minimum Dividend rate exceeds the unrestricted retained earnings of the GOCC.

The Bank submit that the present condition of the bank warrants a significant reduction in, if not an exemption from the dividend requirement as it continues to be challenged by the quality of its loan portfolio because of the effects of the Covid-19 pandemic.

To date, The Bank is still waiting for a reply from the DOF on the Bank's request for such exemption.

Unclaimed dividends included in Other Liabilities account amounted to P21.80 million and P22.31 million as of December 31, 2022 and 2021, respectively (see Note 19).

As at December 31, 2022 and 2021, the Bank has 174 stockholders owning 100 or more shares each of the Bank's capital stock respectively.

25.2 Revaluation Reserves

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

	Financial Asset at FVOCI (see Note 9.2)	**Post-employment Defined Benefit Obligation** (see Note 21.2)	**Total**
Balance as of January 1, 2022	0	(59,845,549)	(59,845,549)
Remeasurements of defined benefit post-employment plan	0	68,735,349	68,735,349
Fair value loss on financial assets at FVOCI	(4,803,455)	0	(4,803,455)
Other comprehensive loss before tax	(4,803,455)	68,735,349	63,931,894
Tax expense	0	(17,183,837)	(17,183,837)
Other comprehensive loss after tax	(4,803,455)	51,551,512	46,748,057
Balance as of December 31, 2022	**(4,803,455)**	**(8,294,037)**	**(13,097,492)**
Balance as of January 1, 2021	656,113	(113,501,844)	(112,845,731)
Remeasurements of defined benefit post-employment plan	0	71,541,727	71,541,727
Fair value loss on financial assets at FVOCI	(656,113)	0	(656,113)
Other comprehensive loss before tax	(656,113)	71,541,727	70,885,614
Tax expense	0	(17,885,432)	(17,885,432)
Other comprehensive loss after tax	(656,113)	53,656,295	53,000,182
Balance as of December 31, 2021	**0**	**(59,845,549)**	**(59,845,549)**

25.3 Surplus Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one per cent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one per cent of general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. As at December 31, 2022 and 2021 the Bank's appropriated surplus pertaining to the General loan loss provisions (GLLP) amounted to P14.16 million and P5.71 million, respectively.

26 RELATED PARTY TRANSACTIONS

Parties are considered to be related if a 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. Parties are also considered to be related if they are subjected to common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The account balances with respect to related parties included in the financial statements are as follows:

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Related Party	Nature of Transaction	2022	2021	2022	2021	Terms and Conditions
Parent Bank						
	Due from other banks	176,339,361	77,001,710	0	0	on-demand; 0.25%; unsecured
	Interest Income	0	0	52,460	51,616	1-7days; 2.53125% to 2.5625%; unsecured
	Interest Expense	0	0	56,627	64,520	1-4 days; 2.25%-2.28% unsecured
	Rent expense	0	0	2,938,390	11,400,499	non-interest bearing; unsecured
United Coconut Planters Life Assurance Corporation						
	Deposit liabilities	4,898,555	33,772,175	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	3,816	15,962	on-demand; interest bearing; unsecured

Details of the foregoing transactions follow:

26.1 Bank Deposits

The Bank has deposits accounts with the parent bank amounting to P176.33 million and P77.0 million as at December 31, 2022 and 2021, respectively, which are presented as part of Due from Other Banks in the statement of financial position. These bank deposits earn interest at the parent bank's regular savings account rate of 0.25 per cent. These deposits made substantially on the same terms as transactions entered into with other third-party individuals and businesses of comparable risks. The related interest income from these deposits amounted to P52,460 and P51,616 in 2022 and 2021, respectively.

26.2 Expenses Paid to the Parent Bank

a. The Bank incurs compensation and fringe benefits expenses for its seconded employees from the parent bank who occupy key management positions at the Bank. In 2022 and 2021, the parent charged the Bank expenses amounting to P9.93 million and P12.44 million, respectively.

b. The Bank incurred rent expense amounting to P2.93 million and P11.40 million in 2022 and 2021 respectively, for the lease of Head Office premises to the parent bank.

26.3 Key Management

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 Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*. The remuneration of directors and other members of key management personnel included in the statements of income follow:

	2022	**2021**
Short-term benefits	7,932,395	9,442,157
Post-employment benefits	2,000,557	3,006,748
	9,932,952	**12,448,905**

Deposit liabilities to key management personnel amounted to P10.64 million and P7.45 million for 2022 and 2021, respectively. Interest expense incurred on the deposit liabilities for 2022 and 2021 amounted to P60,443 and P50,295, respectively.

Short-term employee benefits include salaries and other non-monetary benefits.

26.4 Transactions with Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under the said circular, a reporting entity shall disclose information about any transaction with a related party (retirement plan, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank’s retirement plan for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the LBP Trust Banking under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2022 and 2021, as well as the amounts contributed by the Bank, are shown in Note 21.2.

The total deposits of the retirement fund of the Bank amount to P 30.25 million as of December 31, 2022 and P93.47 million for 2021. The related interest expense recognized by the bank from these deposits amounted to P 1.02 million and P0.83 million for 2022 and 2021 respectively.

The retirement fund neither provides surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

27 COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

a. In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the financial statements. (See note 29.7 for details)

b. There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As of December 31, 2022 and 2021, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

28 EVENTS AFTER THE REPORTING PERIOD

On January 23, 2023, UCPBS received the Authorization to implement the Compensation and Position Classification System (CPCS) from the Governance Commission for Government-Owned and Controlled Corporations (GCG).

The implementation of CPCS is in accordance with Section 8 of Executive Order (EO) No 150, s. 2021, and Section 4 of the CPCS Implementing Guidelines No. 2021-01.

Based on UCPBS' nature of operations, financials, and full-time equivalent positions, below is the summary of its CPCS classification and tier.

Category	3
GOCC Grade	18
Tier	CPCS financials fall below the cut-off for the lowest Tier for Category 2 and 3 GOCCs
Applicable CPCS Salary Structure	Category 1 Salary Structure

On March 23, 2023, the Board of Directors approved the implementation of the Bank's compliance with Section 8 of EO 150, s. 2021 and Section 4 of the CPCS Implementing Guidelines No. 2021-01.

29 SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

29.1 Selected Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

	2022	2021
Return on average equity	2.90%	0.36%
Net interest margin	5.35%	5.40%
Return on average assets	0.34%	0.04%

The Bank's financial performance indicators are computed based on regulatory capital submitted to the BSP as required by Subsection X190.4*, Disclosure Requirement in the Notes to the Audited Financial Statements*, of the Manual of Regulations for Banks.

29.2 Capital Instruments Issued

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

29.3 Significant Credit Exposures as to Industry / Economic Sector

As at December 31, 2022 and 2021, the information on the concentration of loans and discounts as to industry follows (in thousands, except for percentages):

	2022		2021	
	Amount	**%**	**Amount**	**%**
Loans to individuals primarily for personal use purposes	4,265,668	33.22%	3,923,881	31.05
Real estate activities	4,084,728	31.81%	4,168,783	32.99
Wholesale and retail trade, repair of motor vehicles	1,883,946	14.67%	1,808,621	14.31
Financial and insurance activities	584,507	4.55%	544,569	4.31
Agriculture, forestry and fishing	344,744	2.68%	778,550	6.16
Education	344,412	2.68%	62,577	0.50
Transportation and storage	179,591	1.40%	192,069	1.52
Construction	141,508	1.10%	130,662	1.03
Others	1,011,475	7.88%	1,025,726	8.12
	12,840,579	**100%**	**12,635,438**	**100.00**

The maturity profile of loans and receivables is disclosed in Note 4.3.

29.4 Credit Status of Loans

The breakdown of receivable from customers as to status is shown below (in thousands).

	2022		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	2,940,338	2,152,958	5,093,296
Consumer	6,216,137	1,526,127	7,742,264
Allowance for ECL	(304,833)	(1,640,756)	(1,945,589)
Net Carrying Amount	**8,851,642**	**2,038,329**	**10,889,971**
	2021		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	2,477,894	2,258,224	4,736,118
Consumer	6,173,269	1,726,051	7,899,320
Allowance for ECL	(221,132)	(1,706,626)	(1,927,758)
Net Carrying Amount	**8,430,031**	**2,277,649**	**10,707,680**

As at December 31, 2022 and 2021, Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	2022	2021
Total NPLs	3,679,08,443	3,984,274,716
NPLs fully covered by allowance for credit and impairment losses	(1,214,920,334)	(1,037,472,187)
	2,464,164,109	**2,946,802,529**

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest remain unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables 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 receivables 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 10 per cent of the total receivable balance]. Restructured receivables, which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured receivables shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Restructured receivables by contractual maturity dates are analyzed as follows:

	2022	2021
Due within one year	55,974,582	58,033,811
Due beyond one year but not beyond five years	550,145,373	521,396,986
Due beyond five years	509,022,177	467,008,383
	1,115,142,132	**1,046,439,180**

Restructured receivables earn annual interest rates ranging from seven per cent to 30 per cent both in 2022 and 2021.

29.5 Information on related party loans broken down as follows:

In the ordinary course of business, the Bank can enter into loan and other transactions with the parent bank and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing BSP regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70 per cent of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15 per cent of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30 per cent of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2022 and 2021, the Bank's credit exposures to DOSRI are within the said regulatory limits.

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	2021
Total outstanding DOSRI loans	14,390,898	22,103,028
Unsecured DOSRI loans	13,980,822	21,494,295
Percent of DOSRI loans to total loans	0.11%	0.17%
Percent of unsecured DOSRI loans to total DOSRI loans	97.15%	97.25%
Percent of past due DOSRI loans to total DOSRI loans	797.00%	2.12%
Percent of non-performing DOSRI loans to total DOSRI loans	6.90%	0.43%

In 2022 and 2021, total interest income on DOSRI loans amounted to P1.26 million and P1.73 million, respectively.

29.6 Secured Liabilities and Assets Pledged as Security

As of December 31, 2022, the Bank has no assets pledged as security for liabilities.

29.7 Nature and Amount of contingencies and commitments

The following is the summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2022	2021
Late deposits	2,362,450	2,711,135
Items held for safekeeping	50,639	56,536
Others	7,778	8,936

Late deposits are payments or deposits received after the prescribed clearing cut-off time.

30 SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing Revenue Regulation No. 15-2010 (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) Gross Receipts Tax

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

The Bank reported total GRT amounting to P64.64 million in 2022 and is shown as part of Taxes and Licenses in the 2022 statement of income [see Note 30(e)].

(b) Taxes on Importation

The Bank did not have any importations in 2022.

(c) Excise Taxes

The Bank does not have excise taxes accrued since it did not have any transactions subject to excise tax in 2022.

(d) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2022 is presented below.

On loan documents	63,683,487
On mortgages, pledges, and deed of trust	3,460,200
On leases and other hiring agreements	6,364
On telegraphic transfer	150
	67,150,201

For the year ended December 31, 2022, DST affixed amounted to P67.1 million, of which P31.7 million were charged to the Bank's client; hence, not reported as part of taxes and licenses [(see Note 30.(e)].

(e) *Taxes and Licenses*

The details of the taxes and licenses in 2022 are as follows:

	Note	
GRT	31(a)	64,636,140
DST	31(d)	31,773,154
License and permit fees		5,597,337
Fringe benefit tax		597,381
Others		159,390
		102,763,402

(f) *Withholding Taxes*

The details of total withholding taxes in 2022 are shown below.

Compensation and benefits	23,219,710
Expanded	6,873,004
Business Tax	9,174,496
Final	19,035,455
	58,302,665

(g) *Deficiency Tax Assessments and Tax Cases*

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

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUE

1. The balance of Accounts Payable (AP) account amounting to P159.495 million include long outstanding payables to borrowers totaling P70.472 million, of which P67.371 million loan payments do not satisfy the recognition criteria of liability under Conceptual Framework for Financial Reporting, thus, overstating the balance of AP by P67.371 million and overstating/understating the loans and receivable and other related accounts by still an undetermined amount as at December 31, 2022.

1.1 The Conceptual Framework for Financial Reporting of PFRS define a liability as follows:

4.26 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

4.27 For a liability to exist, three criteria must all be satisfied:

a. The entity has an obligation
b. The obligation is to transfer an economic resource; and
c. The obligation is a present obligation that exists as a result of past events

1.2 On the other hand, paragraph 15 of Philippine Accounting Standards (PAS) 1 states:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and condition in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

1.3 Further, Item 2 of the UCPBS Guidelines on Accounts Payable provides:

All transactions booked as Accounts Payable shall be considered as a temporary account and should not remain outstanding for a maximum of six (6) months, except for the following:

a. Identified excess payment of loans – should not remain outstanding for a maximum of 30 days.

1.4 As at December 31, 2022, the balance of the Accounts Payable (AP) account amounted to P159.495 million which include loan payments of borrowers amounting to P135.527 million. Details as follows:

Accounts Payable Subsidiary Ledger Accounts	Less than 180 days	Long Outstanding Accounts				Total
		180 days to 1 year	More than 1 year	More than 2 years	Total Long Outstanding	
(a) Restructuring	11,765,386.17	17,561,830.60	45,405,516.31	766,458.92	63,733,805.83	75,499,192.00
(b) Loans	25,655,167.08	2,450,366.97	748,403.22	-	3,198,770.19	28,853,937.27
(c) Loan Payment	1,114,131.17	85,302.79	310,925.16	-	396,227.95	1,510,359.12
(d) Payroll Service Plan Loans	11,147,619.50	35,000.00	6,875.00	-	41,875.00	11,189,494.50
	49,682,303.92	**20,132,500.36**	**46,471,719.69**	**766,458.92**	**67,370,678.97**	**117,052,982.89**

Accounts Payable Subsidiary Ledger Accounts	Less than 180 days	Long Outstanding Accounts				Total
		180 days to 1 year	More than 1 year	More than 2 years	Total Long Outstanding	
(e) Excess Payment						
1-30 days P1,098,198.87						
31-179days 1,659,876.66	2,758,075.53	863,919.01	631,140.49		1,495,059.50	4,253,135.03
(f) Registration Fee	2,093,191.00	888,223.50	249,123.27	-	1,137,346.77	3,230,537.77
(g) Chattel Mortgage Fees	1,289,032.97	191,718.26	42,325.18	-	234,043.44	1,523,076.41
(h) Documentary Stamps	1,581,011.63	-	-	-	-	1,581,011.63
(i) Notarial Fees	604,451.85	55,400.00	4,400.00	-	59,800.00	664,251.85
(j) Insurance	551,488.96	138,234.33	1,280.24	-	139,514.57	691,003.53
(k) Appraisal fees	807,507.00	17,000.00	6,000.00	-	23,000.00	830,507.00
(l) Incentive Fee	5,688,220.37	4,222.98	-	8,250.00	12,472.98	5,700,693.35
	15,372,979.31	**2,158,718.44**	**934,269.18**	**8,250.00**	**3,101,237.26**	**18,474,216.57**
Total as of December 31, 2022	**65,055,283.23**	**22,291,218.44**	**47,405,988.87**	**774,708.92**	**70,471,961.23**	**135,527,199.46**

1.5 Validation of accounts disclosed that P70.472 million or 52 per cent of the P135.527 million loan related payments have been long outstanding from 180 days or 6 months to more than two years. This long outstanding AP is contrary to the UCPBS Guidelines on AP which requires the AP to be applied and reversed not later than six months from initial booking, and a maximum of 30 days reversal for identified loan excess payments.

1.6 Items a), b), c) and d) in the table above pertain to payments on amortization of restructured loans, new loans and re-availments/additional loans pending liquidation and application to individual borrowers' accounts totaling P117.053 million of which P67.371 million or 57.56 per cent are long outstanding. The bulk of the payments pertain to restructuring of loans amounting to P63.734 million which were temporarily recorded to AP account, hence, do not satisfy the recognition criteria of liability under the PFRS Conceptual Framework.

1.7 Management explained that an extension in the processing of restructured loan is requested depending on the complexity of the accounts. It was noted however, that the general guidelines on AP do not include the specific policy on the threshold amount and approving authority for loan restructuring.

1.8 Item e) on the other hand pertains to excess loan payments subject for refund to borrowers amounting to P4.253 million, of which P3.155 million or 74.18 per cent were aged more than 30 days contrary UCPBS Guidelines on AP where it states that excess loan payments should not remain outstanding for a maximum of 30 days.

1.9 Items f) to l) are charges and fees related to loan applications collected in advance from the borrowers for registration of collaterals, chattel mortgage fees, notarial fees, insurance, appraisal fees and incentive fees for the dealer/agent. These charges and fees totaling P14.221 million are also temporarily recorded to AP account and P1.606 million of which have been long outstanding from 180 days or six months to more than two years contrary to the same UCPBS Guidelines on AP.

1.10 The long outstanding payables to borrowers amounting to P67.371 million relating to loan payments not applied to individual borrower's loans receivable further resulted in overstatement of the balance of the AP account by the same amount and overstating or understating loans and receivable account and other related accounts by undetermined amount as at December 31, 2022.

1.11 **We recommended that Management:**

a. **Apply all the long and outstanding payables amounting to P67.371 million to the individual borrower's loans and receivable and other**

appropriate accounts to faithfully represent the balance of the AP and other affected accounts as at December 31, 2022;

b. Refund all the excess payments amounting to P4.253 million to the concerned borrowers;

c. Revisit the Guidelines on AP to include the threshold and approving authority for loan restructuring; and

d. Strictly monitor and comply with the Bank's policy pertaining to the maximum timeline for the reversal of advances made by borrowers for loan-related expenses shouldered by the borrowers.

1.12 Management agreed with the recommendations and informed that appropriate actions had been undertaken and will continuously be made in the succeeding period.

1.13 It was further informed that the long outstanding APs are all payments made by the borrowers relative to their loans which will be reversed upon registration of the mortgage appraisals, and notarial fees among others. Registration of mortgage is being monitored closely by Credit Management Division, thus, the corresponding APs will also be reversed upon registration of the mortgage.

B. NON-FINANCIAL ISSUES

2. Thirty-eight Real and Other Properties Acquired (ROPA) with aggregate net book value of P2.414 million as at December 31, 2022 were not appraised for more than two years, contrary to the BSP Circular No. 520, series of 2006 and UCPBS ROPA Manual.

2.1 Section 3 (c) 5 of Bangko Sentral ng Pilipinas (BSP) Circular No. 520 dated March 20, 2006 provides:

> *Appraisal of Properties. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs shall be made at least every other year: Provided, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.*

2.2 In line with the BSP Circular, the UCPB Savings Bank Inc.'s (UCPBS) ROPA Manual on the appraisal requirement for acquired properties provides:

> ***Item C, Chapter I:***
>
> *Appraisal must be conducted before foreclosing or acquiring any property in settlement of loans to determine its true economic value. Likewise, the title and tax declaration must be verified.*
>
> *Appraisal of properties exceeding **<u>P5MM</u>** must be conducted by an <u>independent</u> appraiser acceptable to the BSP.*

Item 2 of Chapter III.B:

*Regular appraisal of all ROPAs shall be conducted by the Bank's in-house appraisers at **least every other year.** However, acquired assets exceeding P5MM must be appraised by an independent appraiser acceptable to the BSP.*

2.3 Review of the Schedule of Investment Properties as of December 31, 2022 disclosed that all ROPAs costing P5 million and above each have updated appraisals. However, thirty-eight ROPAs consisting of land costing below P5 million each and with aggregate net book value amounting to P2.414 million do not have updated appraisals. The appraisals of these properties were conducted from 2009 to 2020.

2.4 Inquiry with the Management revealed that the cost benefit analysis is being considered in the appraisal of ROPA since expenses such as travelling of the internal appraiser, and geodetic survey are usually higher than the expected appraisal value, hence, ROPA costing below P5 million each is less prioritized in the conduct of appraisal.

2.5 However, Management reasons on the non-appraisal of the properties costing below P5 million each, is still not consistent with the Bank's policy requiring the regular conduct of appraisal of ROPA to determine the true economic value of properties and to identify accounts which have materially declined in value that may need provisions for impairment.

2.6 The absence of the updated appraisals of ROPAs further contravened Section 3 (c) 5 of BSP Circular No. 520 dated March 20, 2006, and Item C, Chapter I and Item 2, Chapter III of the UCPBS ROPA Manual.

2.7 **We recommended that Management:**

a. Conduct appraisal of the ROPA at the frequency required in the BSP Circular No. 520 and the UCPBS ROPA Manual; and

b. Revisit the policy on the appraisal requirement for acquired properties and include written guidelines on the minimum period or frequency of conducting appraisal of properties costing P5 million and below, taking into consideration the results of risk assessment, current situations, cost-benefit analysis and other identified factors.

2.8 Management agreed with the recommendations and informed that actions have already been undertaken to address the issue.

3. Unserviceable properties costing P39.078 million and net book value of P273,828 were not disposed contrary to PD No. 1445 and UCPBS Administrative Manual.

3.1 Section 79 of Presidential Decree (PD) No. 1445 provides the following:

Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly *authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission …. xxx*

3.2 Moreover, the Bank's revised Administrative Manual included the UCPBS Board Resolution No.041-2022 on management's asset disposal guidelines involving the authority or responsibility for property disposal/divestment, and the six different modes of disposal namely: a) public auction, b) public bidding, c) Sale thru negotiation, d) barter, e) transfer to other government agencies, f) Destruction, condemnation or junk and donation.

3.3 The Property custodian, a designated person by the department or unit in the Head Office or the Branch Operations Officer in the branch-level, is the accountable officer who conducts the inventory count, identifies, and prepares a list of Furniture, Fixtures and Equipment (FFE) classifying the serviceable or unserviceable properties.

3.4 Analysis of the Summary of FFE disposal revealed that various properties and equipment with total cost of P39.078 million were considered unserviceable as at December 2022 and prior years. The details as follows:

Account Title	**2022**			**Prior 2022**				**Total**			
	Cost	**Accumulated Depreciation**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Allowance for impairment**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Allowance for impairment**	**Net Book Value**
Fixtures	1,262,465	1,087,326	175,139	602,205	593,777	8,418	9	1,864,670	1,681,104	8,418	175,148
Furniture	331,809	331,806	3	1,586,832	1,567,821	18,939	72	1,918,641	1,899,627	18,939	75
Computer Hardware	771,242	763,653	7,589	8,398,138	7,853,578	544,370	190	9,169,380	8,617,231	544,370	7,779
Other Equipment	324,959	324,953	6	397,660	396,052	1,600	8	722,619	721,005	1,600	14
Office Equip - Computer Hardware	0	0	0	860,553	858,935	1,600	18	860,553	858,935	1,600	18
Office Equip - Other Equipment	2,963,393	2,884,037	79,356	13,369,647	13,264,527	104,902	218	16,333,040	16,148,563	104,902	79,574
Transport ation Staff Car	4,976,989	4,965,794	11,195	3,232,134	3,186,831	45,278	25	8,209,123	8,152,625	45,278	11,220
Total	**10,630,857**	**10,357,569**	**273,288**	**28,447,168**	**27,721,521**	**725,107**	**540**	**39,078,026**	**38,079,090**	**725,107**	**273,828**
Number of properties			81				451				532

3.5 As can be gleaned in the preceding table, the unserviceable FFEs consisted of 451 FFEs prior to 2022 and additional 81 FFEs in 2022 totaling to 532 FFEs with an aggregate cost and net book value of P39.078 million and P273,828, respectively.

3.6 On June 14, 2022, the Asset Disposal Committee (AdCom) approved the mode of disposal of 339 unserviceable properties wherein the 266 is for junk, 21 is for donation and 52 is for write-off. No information on the progress of disposal through the approved modes of disposal was provided to the audit team.

3.7 The 339 properties identified as unserviceable FFEs in 2020 were re-offered for sale to the public on July 1, 2022. These properties for public bidding was published in the Bank's official website and posted in various Branches' Bulletin. However, according to the UCPBS Management, no bidders showed interest in the said bidding.

3.8 Management has yet to determine the mode of disposal of the remaining 193 unserviceable properties.

3.9 Further verification revealed that the 532 unserviceable FFEs costing P39.078 million and net book value of P273,828 remained undisposed as at December 31, 2022. Pursuant to the Bank's Administrative Manual, there are still several options to consider in the disposal of properties. Thus, the failure of the disposal through public bidding does not hinder the Bank in complying with Section 79 of PD No. 1445.

3.10 Unserviceable properties which were not yet disposed of are exposed to elements that contribute to further deterioration and decline in value. Also, the accumulation of these properties require additional storage area that maybe more useful for other Bank's operations and activities. The non-disposal of properties which are already unserviceable or no longer needed is contrary to Section 79 of PD No. 1445 and UCPBS Administrative Manual.

3.11 **We recommended and Management agreed to dispose the unserviceable FFEs based on Asset Disposal Committees' approved mode of disposal.**

4. Seven parcels of land costing P1.012 million without the Transfer Certificates of Titles under the name of UCPBS do not guaranty the ownership and rights of the Bank to these assets.

4.1 Paragraphs 4.3 and 4.4 of the Conceptual Framework for Financial Accounting defines an asset as:

> *4.3 An asset is a present economic resource controlled by the entity as a result of past events.*
>
> *4.4 An economic resource is a* ***<u>right</u>*** *that has the potential to produce economic benefits.*

4.2 Paragraph 4.6 of the same Framework explain the right in the definition of an asset:

> *4.6 Rights that have the potential to produce economic benefits take many forms, including:*
>
> *XX*
>
> *(b) rights that do not correspond to an obligation of another party, for example:*
>
> *(i)* ***<u>rights over physical objects, such as property, plant and equipment</u>*** *or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object. XX*

4.3 UCPB Savings Bank, Inc. (UCPBS) is 97.49 per cent owned subsidiary of then United Coconut Planters Bank (UCPB) which was merged to Land Bank of the Philippines where the latter being the surviving entity. Effective December 29, 2005, United Savings Bank, Inc. (USB) was merged with UCPB Rural Bank, Inc (URB), another subsidiary of UCPB, wherein the former being the surviving entity.

4.4 In addition, UCPBS was also previously merged with four other rural banks, namely; United Bicol Savings Bank, Inc., United Eastern Savings Bank, Inc., United

Mindoro Savings Bank, Inc. and Domestic Savings and Loan Association, Inc. signed and approved by rural bank's officials on June 21, 1988.

4.5 An Owner's Duplicate Certificate is either an Original Certificate of Title (OCT), if it is the first title issued on the land, or a Transfer Certificate of Title (TCT), if it was issued subsequent to the first title. A TCT is usually issued after the title is transferred to someone from the first registered owner, with the OCT being canceled.

4.6 Review of the Bank Premises, Furniture, Fixtures and Equipment (BFFE), and Right of Use Asset accounts revealed that Land, costing P1.012 million as at December 31, 2022, are located in several branch offices. Details are as follows:

TD/TCT	Cost	Branch/Address of the land	Transfer Certificate of Title		Area	Results of Review
			Name of Owner	Date of TCT	in sqm	
TD-08-18-0001-00480	46,591	Lapasan Branch Daroy St., Poblacion, Municipality of laguindingan, Misamis Oriental	None	None	380	No OCT/TCT were presented but the Tax Declaration for land under the name of Rural bank of Laguindingan, and Tax Declaration (TD) for building under the name of UCPB Rural Bank Inc.
TD-2008-02-001-00326	10,000	Glan Branch Magsaysay St., Corner Vicente Yap St., Sarangani	None	None	420	No OCT/TCT were presented but TD for land under the name of Rural bank of Glan, and Tax Declaration for building under the name of UCPB Rural Bank Inc.
TCT-T-12768	900,000	Lamitan Branch Quezon Blvd. corner Rizal Ave, Lamitan	UCPB Rural Bank, Inc.	November 11, 1999	383	
TCT-P-28030 TD-22-0001-00378	8,350	Dipolog Branch Mabini St., Poblacion, Sindangan	Rural Bank of Sindangan	April 1983	206	TD for land under the name of United Rural Bank of Sindangan, Inc.
TCT-5852 TD-050-8520	20,220	Puerto Princesa Branch Roxas & D manga St., Bgy Magkakaibigan, PPC	Rural bank of Puerto Princesa, Inc.	January 15, 1979	150	
TCT-13636 TD-09-0002-00919	20,250	Sablayan Branch P Urieta corner J Dano Sts., Bgy Buenavista, Sablayan	First Mindoro Savings and Loans Association Inc.	June 1980	782	
TCT-45071 TD-47-0003-00815	6,300	Tuburan Branch Tabo-Tabo St., Poblacion,Municipality of Tuburan	Community Rural Bank of Tuburan	May 2, 1979	300	
TOTAL	**1,011,711**				**2,621**	

4.7 Review of the TCT and Tax Declaration (TD) for seven parcels of Land costing P1.012 million with a total area of 2,621 square meters revealed the following:

a. Two parcels of UCPBS Land, with a total cost of P56,591 and a total area of 800 square meters were only supported by TD. It should be noted that TDs or payment of real property tax does not warrant that the payor is the actual owner of the land.

b. The TCT and TD of one parcel of land costing P0.900 million with an area of 383 square meters is still under the name of URB, a subsidiary of UCPB and was merged to UCPBS.

c. The TCTs of the four parcels of land, with a total cost of P55,120 and total area of 1,438 square meter, were still under the name of Rural

Bank of Sindangan, Rural Bank of Puerto Princesa, Inc., First Mindoro Savings and Loans Association Inc. and Community Rural Bank of Tuburan. These properties were acquired through mergers of various rural banks. However, name of owner in the TCTs remained under the former rural bank owners.

d. The TCT of a parcel of land costing P8,350 with an area of 206 square meter was under the name of Rural Bank of Sindangan but the TD was named under United Rural Bank of Sindangan, Inc.

4.8 Moreover, the TCTs were all dated prior to the merger of UCPBS to URB effective December 29, 2005. No additional or new TCTs bearing the name of UCPBS were presented to the audit team.

4.9 The right over the asset means that the entity holds legal title or controls the right to an asset. In the case of owning properties such as land, a legal document such as OCT/TCT shall be the indubitable or conclusive evidence of ownership.

4.10 Properties without OCTs/TCTs cannot be verified if free from any legal encumbrances such as claims of other parties, existing mortgages, subject of a litigation and the like.

4.11 The seven parcels of land costing P1.012 million without the TCTs under the name of UCPBS do not guaranty the ownership and rights of the Bank to these assets.

4.12 Management explained that the Bank does not need a further act of deed to transfer all rights, privileges, properties, branches, offices, and franchises at which time the merger took effect. This is still consistent with Section 79(d) of Revised Corporation Code of the Philippines.

4.13 However, while possessing rights to the properties might indicate some level of ownership, the OCT/TCTs are a more definitive and legally recognized proofs of ownership. The OCT/TCT title serves as conclusive evidence of ownership, providing a higher level of certainty compared to a mere possession or rights. Thus, we maintain our recommendations.

4.14 **We recommended and Managementagreed to:**

a. Secure copies of the Original/Transfer Certificates of Title of the seven parcels of land without OCT/TCT; and

b. Consolidate all the land titles under the name of the Bank.

Compliance with Tax Laws

5. Information on taxes, duties and license fees paid or accrued during the taxable year 2022 was disclosed in Note 30, Supplementary Information Required by the Bureau of Internal Revenue to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P58.303 million were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

SSS, Philhealth and Pag-IBIG Premiums

6. In 2022, the Bank complied with Republic Act No. 8282 on the collection and remittance of contributions to SSS as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and

b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

7. UCPBS also complied with Title III, Rule III, Section 18, of the Implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to PhilHealth.

8. The Bank also complied with Rule VII, Sections 2 and 3 of the Implementing Rules and Regulations of RA No. 9679 (Home Development Mutual Fund Law of 2009, otherwise known as Pag-IBIG Fund), in the collection and remittance of contributions to the Pag-IBIG Fund.

Status of Audit Suspensions, Disallowances and Charges

9. There were no balances of audit suspensions, disallowances and charges as at year end.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 12 audit recommendations embodied in the prior years' Annual Audit Reports, nine were fully implemented, and three were partially implemented, of which two were reiterated in Part II of this report. The other audit observation with the corresponding partially implemented audit recommendation is presented below:

Reference	Audit		Status of Implementation
	Observations	Recommendations	
CY 2021 AAR Observation No. 5 Page 112 to 114	UCPBS has not yet prepared the Gender and Development (GAD) Agenda 2020-2025 contrary to Philippine Commission on Women (PCW) Memorandum Circular No. 2018 – 04, hence has no strategic framework and plan on gender mainstreaming, and achieving women's empowerment and gender equality.	Prepare the Bank's GAD Agenda following the steps provided under PCW Memorandum Circular No. 2018 – 04.	Partially Implemented As part of the Bank's compliance to GAD Requirements and PCW Memorandum Circular No. 2011-01: Guidelines for the creation, Strengthening, and Institutionalization of the GAD Focal Point System (GFPS), the composition of the UCPBS GFPS has been updated to comply with the said memorandum. Human Resources Department identified members of GFPS who shall work on the Gender Mainstreaming Monitoring System (GMMS) encoding and updating. GAD Plan and Budget for 2023 has been prepared and encoded to GMMS. UCPBS GFPS members are required to attend capability building training programs being facilitated by PCW.

Reference	Audit		Status of Implementation
	Observations	Recommendations	
			The GAD Focal Persons are scheduled for GAD Training on September 20, 2023 on GAD Budgeting and November 22, 2023 re Gender- Fair Language and Communication. These seminars are all aimed to strengthen UCPBS GFPS. Seminars will be conducted at PCW.