LifeBank
A Rural Bank

2022

ANNUAL REPORT

BECOMING THE MOST-LOVED BANK IN PANAY

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About the Cover

Despite various challenges, LifeBank - A Rural Bank (LBRB) has navigated the past couple of years with determination. Motivated by the modern ways of the world while providing quality service to its valued clients, LBRB has poised itself to become mostly digital by 2026 alongside with its vision to become the "Most Loved Bank in Panay."

The cover represents the various company colors in a very simple manner. Blue, a color associated with the sea and the sky embodies the symbol of heaven, faith, piety, and the virtues of trust, loyalty, and truth. For LBRB, it relates to confidence, wisdom, depth, and stability and is linked to consciousness and intellect. The orange color stimulates enthusiasm, fascination, determination, and creativity, and it encourages attraction, happiness, and success. Yellow is the color of sunshine and depicts joy and happiness. Yellow is a warm color that enthuses cheerfulness and positive energy. For LBRB, it is a color that represents intellect, loyalty, and honor.

As LBRB progresses, it looks forward to a streamlined digital banking system that can reach and serve more clients regardless of their location. Nevertheless, the bank remains steadfast during these times through its committed team and relentless drive to keep moving forward and deliver unparalleled yet transparent financial opportunities to improve everyday Filipino life.

Placing the needs of our clients at the forefront of our vision allows LBRB to stay true to its core identity by giving Filipinos a financial partner for life.

LifeBank's Journey to Digitalization

LifeBank - A Rural Bank (LBRB) has taken the first step in its digitalization journey by partnering with a reliable, robust cloud-based core banking system. Our digitalization program will scale up our reach and improve relationships with our clients, significantly benefiting our stakeholders in the long run.

The applied technology digitized many of our procedures, resulting in more efficient operations and banking systems. It was implemented in the 2nd Quarter of 2021. On the other hand, the PhilPaSS application was approved, while ECPay was successfully implemented in the last quarter of 2021.

This year, the Business Transformation Committee was established to oversee our digitalization journey. Our management team focused on exploring the benefits of the Field Officer App using mobile phone and a partnership with a fintech provider that can offer the best features of a digital platform that could cater to the needs of our clients.

LifeBank's Corporate Policy

Our Logo

As LifeBank - A Rural Bank (LBRB) progresses, we ensure a brand identity that exemplifies how we approach our work by providing microfinance services to less fortunate individuals of the Philippines.

We created a logo that encapsulates the elements of our reason for being and demonstrates what we aim to do and how we do it. The logo highlights the initials L and B for LifeBank, and it incorporated the Mother and Child, Earth, Sun, and Water among its major elements, forming a trademark.

Elements

Each of the elements is symbolic of the values of LBRB. The Mother and Child epitomize nurture, family, support, and service.

The Earth embodies nature and shelter.

The Sun is the provider of life, light, and warmth. The Sun holds seven rays depicting the seven pillars of sustainable development: *ecological, cultural, economic, political, societal, human, and spiritual.*

The water describes life, growth, nurturing, and development. Watermarked within the water symbol is the map of the Philippines, which portrays the role of LBRB in nation-building.

Color Palette

The colors of blue, orange, and yellow were selected to reinforce the message among elements used and emphasize the meaning of LBRB to its workers, partners, clients, and the public.

Blue

Blue is a color associated with the sea and the sky. It embodies the symbol of heaven, faith, piety, and the virtues of trust, loyalty, and truth. For LBRB, it relates to confidence, wisdom, depth, and stability and is linked to consciousness and intellect.

Blue is considered beneficial to the mind and body. It is a color that stands for tranquility, calmness, and healing.

Orange

Orange combines the energy of red and the happiness of yellow. It is a color that exemplifies the tropics, sunshine, and joy and is the emblem of endurance and strength.

For LBRB, it is a color that stimulates enthusiasm, fascination, determination, and creativity, and it encourages attraction, happiness, and success.

It is a color that typifies fall and harvest. It offers the sensation of heat to the senses and stimulates mental activity by increasing the oxygen supply to the brain while delivering an invigorating effect.

Yellow

Yellow is the color of sunshine and depicts joy and happiness. It is a warm color that enthuses cheerfulness and positive energy. For LBRB, it is a color that represents intellect, loyalty, and honor.

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Vision

A *leading provider* of a range of financial services to bank clients, especially microfinance for the enterprising poor, and an *important partner* to support individuals, families and their communities in realizing their inherent potentials through a culture of caring, sharing, and respect for nature.

Mission

The four pillars of our mission focus on our clients, our partners, the communities we are serving and our fellow LifeBankers.

To Our Clients:

We will provide a range of financial and social services and partner with like-minded institutions to respond to the needs of our clients.

To Our Partners:

We will work together for the benefit of the poor, nature and society.

To the Communities We Serve:

We will be a catalyst for poverty reduction and a model of societal responsibility.

To the LifeBankers:

We will have a culture of excellence, providing opportunities for the personal, professional and spiritual growth and development of all.

Core Values

We Excel
- Competence
- Professionalism
- Integrity
- Honesty

We Care
- Loyalty
- Obedience
- Security and Safety
- Customer Satisfaction and Service

We Share
- Social Responsiveness
- Sustainable Development

LifeBank's History

LifeBank - A Rural Bank (LBRB), formerly Rural Bank of Maasin (Iloilo), Inc., was established on March 21, 1970, by the Perlas Family and other prominent members of the community of the Municipality of Maasin, Iloilo. The bank's objective was to extend financial services in areas where access to credit was limited.

The bank's vision and mission were defined when the Board of Directors held its first planning and visioning session in 1993. After the session, the Sustainable Development Investment Unit (SDIU) was built.

The SDIU institutionalized lending for sustainable development projects to develop human potential.

In June 1995, a branch was established in the Municipality of Santa Barbara, Iloilo. The branch experienced phenomenal growth as its deposits, loan portfolio, and resources increased beyond expectations while recognizing and affirming trust within the community. It was also in 1995 that the Ikabuhi Microfinance Program (IMP) was established. The program aims to activate savings and provide credit to enterprising poor women.

In 1998, LBRB adopted the Grameen methodology for its microfinance program, initially producing positive results. Later, weaknesses in the management information system and program policies were observed, prompting management to look for a better alternative. It was in November 2000 when the bank became a program partner of the Microfinance Support Program (MSP) of the United Nations Development Program (UNDP), where the bank was introduced to the Association for Social Advancement (ASA), pronounced ASHA- a Bangla word meaning HOPE. Since then, the bank has been implementing the Association for Social Advancement (ASA) methodology with incredible results, proven by its almost 100% repayment rate, early sustainability, and rapid expansion.

In January 2003 after covering most of Iloilo, the Board of Directors created the Lifebank Foundation, Inc. (LBF), now known as Lifebank Microfinance Foundation, Inc. (LMFI) to expand the program outside the province of Iloilo. At that time, the bank did not have the required capital to operate outside of Iloilo province. While LBRB continues to grow in assets and capital, LBF's microfinance operation grew to cover Panay and other parts of the country (Luzon, Visayas, and Mindanao). In 2008, LBRB, having reached the required capitalization to operate in other parts of the country, started purchasing microfinance portfolio from LBF in the provinces of Iloilo, Guimaras, Antique, Aklan, and Capiz.

Currently, LBRB has a Head Office in Santa Barbara, Iloilo, three (3) branches, and forty-four (44) Branch-lite Units (BLUs). The branches are located in Maasin, Iloilo (since March 1970; formerly the Head Office), Iloilo City (since May 2011), and Roxas City, Capiz (since May 2013). The BLUs operates in the Provinces of Iloilo, Guimaras, Capiz, Aklan, and Antique.

A Message from the Chairperson of the Board

John Aloysius S. Bernas

Fellow Stakeholders,

Every year, it is an honor for me to bring to your attention the progress our LifeBank team has made towards our collective aspirations. I consider it a privilege to Chair and work with LBRB's Board of Directors.

The last 12 months have been difficult for most businesses, with the banking sector facing arguably the biggest challenges since the bank was founded more than five decades ago. As if the damage brought by Covid 19 in previous years were not enough, geopolitical tensions in the earlier part of the year, both around us in Asia, as well as in Europe, have compounded the recovery efforts of both individuals and institutions in the country. This makes our bank's recovery to profitable operating levels this year all the more impressive. For this, our leadership team deserves all our congratulations for coming out victorious in the battle of 2022. That is the good news I am pleased to share with you.

The unpleasant news is that, the bigger war is still ahead of us and it is an existential one. The banking industry has been under siege on multiple fronts. In the last handful of years, digitally enabled challengers have begun to eat up market share by focusing on the traditionally lucrative services in piecemeal fashion – consumer lending, payments, interest bearing products, and even capital raising. In true tech fashion, most of the industry's formidable challengers are not interested in doing everything banks traditionally do - indeed, many are not banks. Instead, the new breed of challengers are laser focused on both the consumer experience and the specific financial service that they do well. The two years of mobility lockdowns in 2020 and 2021 only served to stretch the gap between those that will thrive in this constantly changing environment, and the banks or non-banks that are likely to become victims of the evolutionary process.

We know that when Panay thrives, we thrive as a bank. Acknowledging all of the above, our vision of a progressive and resilient Panay means that our bank cannot stand still in the midst of this existential challenge. In times of economic turbulence, our founders' original commitment to providing competent, inclusive, and fairly priced financial services becomes even more essential towards helping our stakeholders recover from the wounds of the pandemic and achieve their dearest aspirations. At the end of 2021, our Board reinforced our Bank's resolve to become more relevant to the daily lives of our stakeholders by leaning harder on our founding principles - while at the same time implementing a strategy that is nothing short of a revolution in the way we provide those services.

The year 2022 saw us take earnest steps toward our transformational journey, and it is a testament to our own resilience that we have been able to make meaningful progress in this journey while remaining fiscally sustainable this year. Our aim to be the most loved bank in Panay, will ensure that we are not standing still, waiting to be swept up in change. Instead, we hope to be driving those changes. Our strategy, focused on leveraging the people, the embedded value, and the resources that already exist within the bank, amounted to a comprehensive and continuing organizational transformation throughout 2022.

We have pivoted our organizational structure to focus on the customer and in particular, the younger generation of Panay who constitute the greater majority. For this reason we continue to push forward our digital transformation journey and hope that this will accelerate significantly in 2023. In line with our high tech, high touch philosophy, we have simultaneously increased our physical footprint in Panay and aim to have a footprint in all the five(5) provinces with 97 municipalities including Guimaras Island. We have strengthened our model for governance to drive the processes more efficiently and to make our people more effective. We have also successfully supported our teams in the gradual return to work and we hope to unfold soon a compensation structure that will encourage both performance and innovation among our officers and employees at both the individual and team levels.

These are just a few of the steps we have taken in our efforts to unlock the full potential of our hometown "Panay bank". We believe that these changes have enabled us to respond to this year's headwinds and allowed us to deliver sustainable profit in what was otherwise a challenging year for banks in general, and rural banks in particular. We can look forward to 2023 with confidence and do even better in the coming years.

Thank you for trusting us with this journey and thank you for your own contributions to this successful year.

JOHN ALOYSIUS S. BERNAS
Chairperson of the Board

A Message from the President/ Chief Executive Officer

Rosario B. Perlas, M.D.

"We are optimistic about the future as we focus on productivity, customer experience, and sustainability."

Dear Fellow Stakeholders,

Looking back on 2022, we were approached by disruptors that we thought were highly unusual and alarming.

The first quarter of the year presented a bleak economic outlook as the unprovoked war between Russia and Ukraine, which started at the end of February of 2022, greatly affected the prices of food and energy markets globally. We felt the shockwaves that it created while we were in the process of recovery from the Covid 19 pandemic. In the Philippines, this was followed by an increase in minimum wage order by the Department of labor and Employment (DOLE) and Iloilo having the highest increase in wage.

We find ourselves at a tipping point. However, despite a challenging year, LifeBank remains strong mainly because of the loyalty of our clients, the remarkable performance of our dedicated employees and the invaluable guidance of the Board of Directors. We were strengthened by a hardworking workforce to deliver our microfinance services around the island of Panay and Guimaras.

From this year onwards, we envision LifeBank becoming the "Most Loved Bank in Panay". This aspiration shows our strong commitment to serve our clients better.

We are optimistic about our future as we focus on productivity, customer experience, and sustainability. Digitalization, among other priorities, continues to be our main focus to maintain LifeBank's market relevance and to deliver the best customer experience to our clients.

Come 2023, we are excited to saturate Panay Island by opening more Branch-lite Units, partnering with a reliable online and mobile banking enabler to provide the needs of our clients. We also look forward to trying the open Application Programming Interface (API) feature of our core banking system.

I would like to thank everyone who supported us throughout this eventful year which enabled us to recover and bounce back to a pre-pandemic level.

I am forever grateful to our clients for the unwavering trust: to our Board of Trustees, for the confidence and the invaluable guidance it extended to us; to the Board of Directors of Lifebank Microfinance Foundation Inc. (LMFI), for the openness and sustained support to LBRB and LMFI's which created a synergistic relationship; and, to the Bangko Sentral ng Pilipinas (BSP), for its continued trust and support to microfinance endeavors of rural banks like LifeBank; and, most of all, to all of you our shareholders, for subscribing to our vision.

I am looking forward to the year ahead with excitement about what we can achieve together!

ROSARIO B. PERLAS, M.D.
President/Chief Executive Officer

2022

The President's Report

Rosario B. Perlas, M.D.
President/Chief Executive Officer

2022 in Review

As the bank emerges from the worst of the pandemic over the last two (2) years, this 2022, the bank regained lost ground and returned to its pre-pandemic trajectory. Full resumption of businesses and no movement restrictions post the bank to increase in income and rebound back to almost the same level as 2017's financial performance. Additionally, it was driven by the bank's tenacity as an organization that remained to be strong. This is guided by a strong vision "LifeBank being a major catalyst in breaking the chains of poverty."

The introduction of cross-institutional training strengthened the relationship between two sister organization LBRB and LMFI.

This year onwards, we started directing our actions towards achieving our goal of becoming the "Most Loved Bank in Panay."

Operational Highlights

Global and Local Disruptors

The different factors affecting economic conditions greatly challenged the bank's operations.

This year, the increase in Inflation from 3.9% (2021) to 5.8% (2022) and the war in Ukraine versus Russia resulted in higher oil and essential commodities prices.

The Philippine peso has weakened against the USD, from 51.0 in January to 58.82 by October and stabilized at 55.7 by the end of December 2022. The peso's weakening means that foreign goods and services we import become more expensive to Filipinos.

Overseas Filipino Workers (OFWs) benefit if the Philippine Peso weakens. This contributed to the improvement of the purchasing power of OFW beneficiaries. Eleven percent (11%) of the Philippines' total population depends on foreign remittances.

The Climate Change risk also affected the operations. In December 2021, super typhoon Odette devastated our clients' and employees' houses, businesses, and properties, causing remnants by 1st Quarter of 2022. On April 2022, typhoon Agathon also hit Western Visayas, affecting less than two-thirds of our clients in Panay and Guimaras. We are grateful for the assistance of our sister organization, the Lifebank Microfinance Foundation Inc. (LMFI), who alleviated the condition of our clients through cash assistance. By October 2022, typhoon Paeng affected both clients and employees in Panay.

Among other significant events that happened in 2022 were:

- Increase of one percent (1%) PhilHealth contribution effective January 2022
- National Election last May 2022
- New minimum wage from 395.00 to 450.00 (May 2022)
- Resumption of face-to face classes in November 2022

Key Events

The bank's resiliency and agility to address external factors affecting the operations prevailed. In response to the challenges, the board and management embraced and initiated the following strategies:

January
- Digitized Performance Management and Development Form (PMDF)
- Rolled-out ECPay to all branches
- Adjusted Deposit Interest Rates

February
- Rolled-out Instafin Messaging
- Crafted Sustainable Finance Framework
- Cross institutional Synergized Staff Training with LBF

March
- Created Technical Working Group for Sustainability
- Established Retirement Committee

April
- Environmental sustainability contest entitled "How to Save Mother Earth"

May
- Created Board of Director's AdHoc Committees

July
- Conducted Synergistic Strategic Planning of both sister organizations (LBRB/LMFI)
- Business Transformation Committee commenced exploring Online and Mobile Banking App Vendors

August
- Kick-off of LBRB's campaign, "Data Cleansing Drive"
- IT started the installation of the Universal Broadband Router (UBR) Long-Term Evolution (LTE) sim to BLUs to address poor connectivity

September
- Business process review to improve efficiency and minimize paper consumption through digitization

October
- Implemented the enhanced motorcycle loan
- Accomplished 90% data clean-up of client records

November
- Review and implemented Business Continuity Management to strengthen BCP
- Fully funded the retirement of employees and partnered with ATRAM to manage the investment

December
- Implemented zero single-use plastic in Head office and all branches
- Established the Performance Management Committee

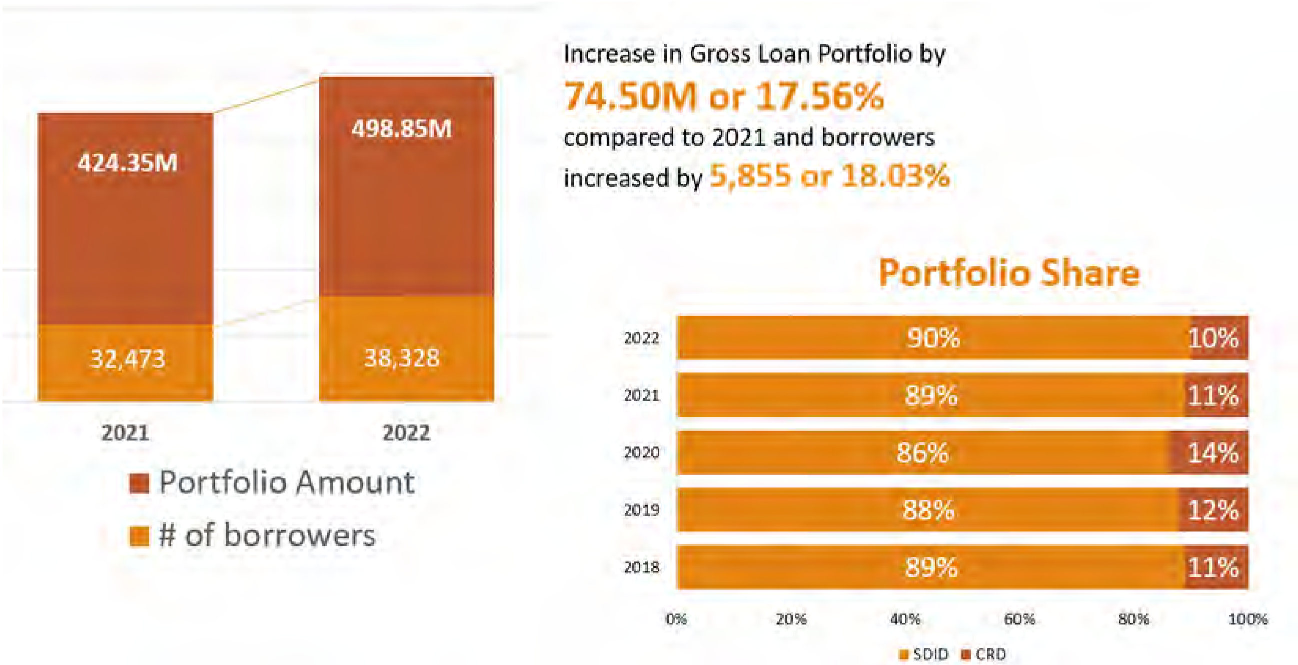
Deposit Performance

The deposit liability for this year recorded a slight decrease of 2.94% which resulted to a decrease in interest expense by 18.17%.

Bank-Wide Loan Performance

Though 2022 was characterized by geopolitical tension that increased oil and basic commodity prices, LBRB's operation remains strong. The easing of movement restrictions and opening of the classes face to face has mobilized local economies.

This year's bank-wide loan portfolio and the number of borrowers continue to increase by 17.56% and 18.03%, respectively. This helped the bank to regain its position almost at the pre-pandemic level.



Credit Relationship Department (CRD)

The Credit Relationship Department has improved in performance this year. The outstanding loan portfolio has increased by 3.69%. The team's collection efforts brought them a recovery of P6.8 million from their past due balances and non-performing accounts.

In Millions	Ending Figures		Change
	2021	2022	
Loan Portfolio	48.7	50.5	**3.69%**
Loan Releases	.731	1.31	**79.21%**
Past Due Ratio	54.25%	38.69%	**(28.68%)**
Net Income	3.06	6.90	**125.49%**

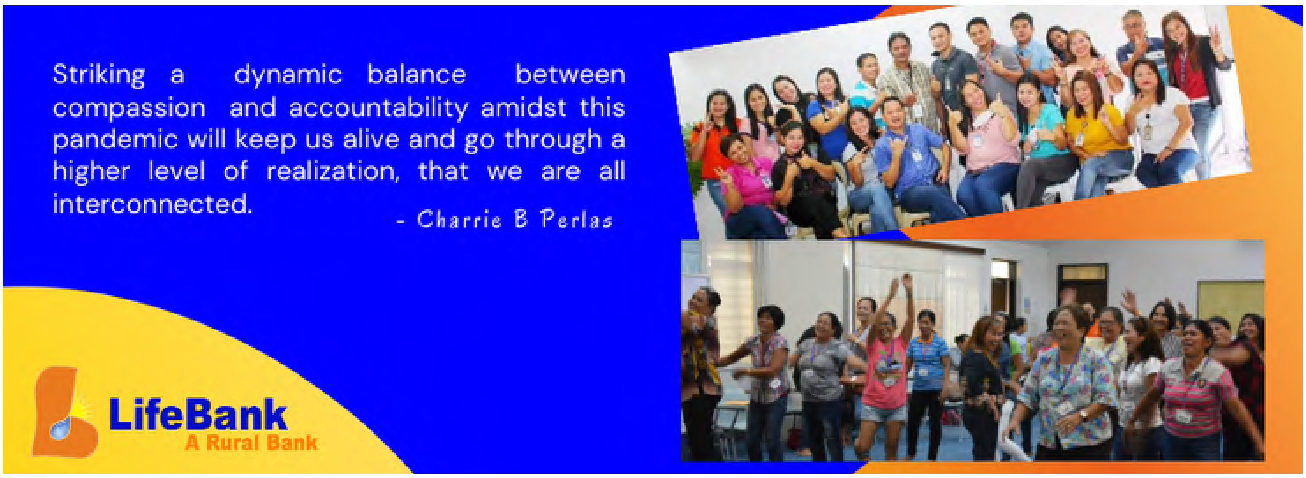
Microfinance Performance

The first quarter of 2022 was challenging for our Sustainable Development and Investment Department (SDID), which handles the microfinance operations. With the PAR ratio hitting 16.63% at the end of 2021 due to the devastation of typhoon Odette last December 26, 2021, the SDID developed strategies to assist clients in their recovery phase while finding efficient ways to collect loans.

To increase the loan portfolio, SDID introduced a new loan product, the Water Sanitation and Hygiene (WaSH) loan last May 2022. The WaSH loan is granted to LBRB's existing clients to support their needs for a safe water sourcing and improved water facilities such as the construction of their water connection, toilet, and lavatory. The Educational Loan continues to grow and has increased by 92.62% from 4.42M (2021) to 8.51M (2022).

At the end of December 2022, the SDID recorded an increase of 19.48% in the loan portfolio, a decrease in portfolio-at-risk (PAR) amount by 14.86%, and decrease past due ratio by 28.20%. The PAR ratio by year-end is 11.94% from 16.63% (2021).

For 2022, SDID focused more in vertical expansion or deepening by recruiting new members and increasing borrowers instead of opening new units.

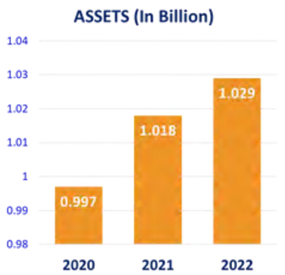


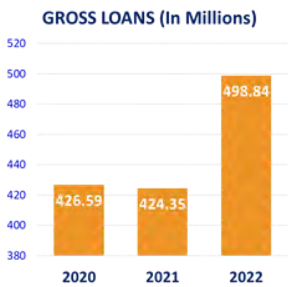
Sustainable Development Investment Department (SDID) *at a Glance*

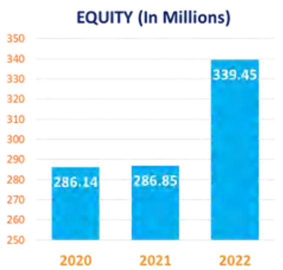
	Ending Figures			Change
	2020	**2021**	**2022**	
Number of Branch-lite-Units (BLU)	37	44	44	0%
Number of Business Units	54	58	58	0%
Number of covered Provinces	5	5	5	0%
Number of covered Cities	3	3	3	0%
Number of covered Municipalities	97	97	97	0%
Number of Unit Supervisors	54	58	58	0%
Number of IMP Assistants 2	53	55	58	5.45%
Number of IMP Assistants 1	167	181	185	2.21%
Number of Members				
Active	42,058	*44,314*	43,671	(1.45%)
Inactive	14,274	*12,940*	18,518	43.11%
Total	**56,332**	**57,254**	**62,189**	8.62%
Savings Balance (in Millions)				
Active	*116.9*	*102.9*	99.46	(3.34%)
Inactive	*3.9*	*3.6*	5.28	46.67%
Total	***120.8***	***106.5***	**104.74**	(1.74%)
Number of Borrowers	30,334	32,473	37,997	17.01%
Total Portfolio (Principal) (in Millions)	362.6	372.7	445.29	19.48%
Portfolio-at-Risk (in Millions)	78.4	62.4	53.13	(14.86%)
PAR Ratio	21.38%	16.63%	11.94%	(28.20%)
Member per Assistant (Active)	251	244	236	3.28%
Borrower per Assistant	181	179	205	31.84%
Loan Outstanding per Assistant (in Millions)	2.1	2.07	2.4	15.94%
Ave. Savings per Member	2,781	2,324	1,684	(27.54%)
Ave. Loan Outstanding per Member	11,954	11,565	11,759	1.68%

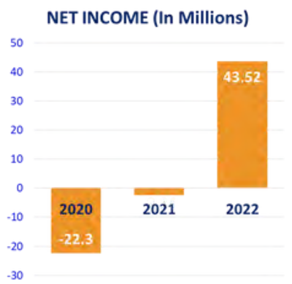
Financial Highlights

LifeBank - A Rural Bank (LBRB) is pleased to report solid financial results that exceed management expectations.









Financial Performance Indicators

	2021	2022	Change
BALANCE SHEET (in PHP millions)			
Assets	1,018.89	1,029.92	1.08%
Liquid Assets	573.40	516.30	-9.96%
Treasury Securities	118.83	185.02	55.70%
Gross Loans	424.35	498.84	17.55%
Net Loans	350.07	421.91	20.52%
Deposits	647.11	628.07	-2.94%
Equity	286.65	333.58	16.37%
INCOME STATEMENT (in PHP million)			
Net Interest Income	223.41	258.40	15.66%
Non-interest Income	3.61	22.04	510.18%
Net Revenues	241.03	291.88	21.09%
Operating Expenses	224.33	223.47	-0.38%
Pre-provision Profit	17.13	46.89	173.68%
Impairment Losses	19.47	3.37	-82.68%
Net Income	-2.34	43.52	1962.94%
FINANCIAL PERFORMANCE INDICATORS			
Profitability			
ROE	-0.80%	14.03%	1853.75%
ROA	-0.23%	4.25%	1947.83%
Margins and Liquidity			
Net Interest Margins	22.16%	25.22%	13.81%
Net Loans to Deposit Ratio	54.10%	67.18%	24.18%
Cost Efficiency			
Cost to Income Ratio	93.07%	76.56%	-17.74%
Cost to Average Assets Ratio	22.25%	21.81%	-1.98%
Asset Liquidity			
NPL Ratio	19.23%	14.30%	-25.64%
NPL Cover	90.47%	107.41%	18.73%
Capital and Leverage			
Tier 1 Ratio	23.93%	31.42%	31.30%
Capital Adequacy Ratio	24.60%	31.85%	29.47%
Leverage Ratio	28.13%	32.39%	15.14%

Revenue

Delivering on our financial goals, thanks to our collective efforts in 2022, we delivered strong results that exceeded our expectations. The bank's revenue increased by 21.09% coming mainly from interest income from loans with a notable increase by 13.7% this year. Non-interest income increased by 510.2% which is composed of commissions, fees and disposal of investment properties.

Expenses

LifeBank continues to effectively manage its expenses despite of a challenging economic climate, the persistence of COVID 19, the continuing pressures of increasing inflation and the effects of Ukraine and Russia war. The bank was able to cope up with the 55.00 daily wage hike in the Visayas and granted all employee bank wide performance bonus last December 2022. Overall, the bank recorded a decrease of 1.44% in the total expenses due to decrease in interest expense for deposit liabilities and lower provision for probable losses for the year.

Capital Adequacy and Structure

In Php Millions	Ending 2021	Ending 2022
Core Tier 1 Capital		
Paid up common Stock	13.92	13.92
Paid up perpetual and non-cumulative preferred stock	0.01	0.01
Retained Earnings	271.38	269.56
Undivided Profits	-1.62	55.96
Sub-total	283.69	339.45
Deductions from Core Tier 1 Capital		
Deferred tax asset, net of deferred tax liability	27.19	26.24
Total Core Tier 1 Capital	**256.50**	**313.21**
Upper Tier 2 Capital		
General Loan loss provision	7.19	4.26
Deductions from Core Tier 2 Capital		
Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption	0.01	0.01
Total Upper Tier 2 Capital	**7.18**	**4.25**
Total Qualifying Capital	**263.68**	**317.46**
Risk-weighted Assets and Capital Requirements		
Risk-weighted on Balance Sheet Assets	720.06	639.07
Deductions from Total Credit Risk-Weighted Assets		
General Loan Loss Provision	2.57	0.00
Total Credit Risk-Weighted Assets	**717.49**	**639.07**
Total Operational Risk-Weighted Assets	**378.73**	**357.66**
Total Operational Risk-Weighted Assets	**1,096.22**	**996.73**
Capital Requirements		
Credit Risk	71.75	63.91
Operational Risk	37.87	35.77

Human Development

Our people drive everything that we do, and we are committed to making extraordinary efforts to provide our workforce with a better work environment to deliver their full potential.

To keep our commitments to our clients, we recognize that talent recruitment and retention are essential to our success.

In 2022, the Human Development (HD) has successfully implemented employee engagements, programs, and policy enhancement for better human development. These are:

1. Succession planning implementation
2. Launching of LifeBank's journey to be "The Most Loved Bank in Panay"
3. Implementation of LBRB Rewards for operations wherein efforts of operations team are recognized and rewarded in monetary value in group and individual category. This is the bank's initiative to help the operations team boost its productivity and retain their top talents.
4. Revised and improved Retirement Plan that includes an engagement with ATRAM, a third party independent asset and fund Manager
5. Conducted environmental sustainability contest entitled "How to Save our Mother Earth - Protecting earth Today and Tomorrow" with an objective of creating a bank initiated sustainable project that will save the environment, and
6. After 2 years in pandemic, the bank held the 2022 Christmas party face to face

	Ending 2020	Ending 2021	Ending 2022	Change
Population	471	467	481	3%
Male	146	147	156	6.12%
Female	325	320	325	1.56%
Accession Rate	5.20%	17.09%	19.96%	16.79%
Separation Count	76	90	82	(8.89%)


HAPPY
KODAK PORTRA 400
ILOILO PHILIPPINES


LIFE BANK
A


Merry Christmas
ADMIN DEPARTMENT


AUDIT TRAINING

In the last few years, we have been working towards building a "sense of belongingness" while championing our culture and guiding principles. To build an even stronger workforce, and create an optimal employee experience, we will continue to emphasize professional development, internal promotions, and succession planning to ensure leadership continuity and the value of our stakeholders.

Our trainings for this year focused on the continues improvement of our employees in the data security and awareness as one of the major learning perspective for digital transformation. Other significant trainings conducted related to these were: 1. Information Security Governance and the Role of Internal Audit, 2. Fundamentals on Innovation for Digital Transformation, 3. Digitalization of Microfinance Institution and 4. Be Data Literate: The Data Literacy Skills Everyone Needs to Succeed.

Our HD team in their mission to address retention issues attended the training "Boost Retention Amidst the Great Resignation" in order for them to know the techniques and ways in boosting retention despite the current trend of resignation and to efficiently find ways to ensure that employees are engaged. To avoid burn out /stress from work, all employees attended the training "Prevent Burnout and Harness Employee Potential and Coping with Chronic Stress".

Risk Management Office attended the Sustainable Financing Environment and Social Risk Management (ESRM) to equip them regarding environmental and social risk and the Bank's role in sustainability.

Frontliners were sent to "Customer Service Excellence" training to equip them with skills necessary to deliver quality service to our clients.

A two-day Leadership Training conducted by Fr. Joel Eslabra was participated by the Bank's top management and key personnel as one of the Bank's initiative to address the current issues of high turnover rates on the industry by addressing generation gap and improve the leadership competencies of the Department and Division Managers.

Sustainability Program and Updates

On March 2022, we created the Sustainable Finance Technical Working Group (SFTWG) to focus on sustainable programs that the bank will implement internally. The group started to formulate the Sustainable Finance Framework as required by the BSP Cir. 1085. On the same month, the SFTWG conducted a bank wide contest to promote bank awareness on how to preserve Mother Earth.

On May 2022, the Sustainability Committee was created to oversee the sustainable programs of the bank.

LifeBank - A Rural Bank's goal for sustainability is also a priority for 2023 and is included in the bank's 2023 Strategic Initiatives.

Corporate Social Responsibility

The year-end record shows that the number of scholars continues to increase. Currently, the number of scholars is 299 and counting. The bank continues to offer Scholarship Program in partnership with Lifebank Microfinance Foundation Inc. to qualified children of our Microfinance Clients.

	Ending 2022
Total Number of Scholars	299
Number of Graduates	85

Strategic Plan 2023

For 2023, we see to it that prioritization is adequately laid out. To materialize our mid-term goal while we address our Digital Transformation Program by 2026, we have spelled out our 2023 and mid-year goal focus (2023-2027).

2023 STRATEGIC INITIATIVES

Financials/Expansion
- Open 10 Branch-lite Units
- Grow CRD and reach Portfolio Share of 17% (SDID - 83%, CRD - 17%)

Customer
- Conduct Customer KYC
- Develop, pilot and roll-out 1-2 Customer Centric Product
- Develop, pilot and roll-out 1-2 Sustainable Loan Product

Internal process
- Develop clear Digital Roadmap
- Roll-out of Instafin Field Officer's App (IFOA)
- Explore Functionality of Core Banking System (CBS)
- Automate at least 25% of internal processes

Learning and Growth
- Establish a framework where data will be the basis of decision making
- To provide different learning platforms for employees on Sales Training and Customer service

Risk Management

Risk Management

The Risk Management process and practices of LBRB are anchored on its mandate and consistent with its Vision, Mission, strategies and business objectives, structure, policies, and overall risk management strategy.

The Risk Management Process is based on the guidelines and directions the Bangko Sentral ng Pilipinas set forth.

Risk reporting apprises LifeBank's Top Management of the material risks confronting the Bank, and it serves as a guide in decision-making, specifically in determining viable solutions that will address the risks.

The Risk Management Process highlights risk management performed at three levels: Strategic, Portfolio, and Transactional.

Risk Management at the Strategic Level generally involves risk oversight and risk policy formulation and approval. Along the risk and control "line of defense," this level is ultimately responsible for the effectiveness of risk management activities across the organization.

The highest level of risk management involves the LBRB President/CEO, other Board-level committees, and Management Committee.

The Board performs risk management oversight at LBRB. They are responsible for reviewing and approving the Risk Management program. The Board is responsible for setting the risk appetite and supporting policies and strategies.

The President/CEO, Board-level committees, and Management Committee are responsible for creating a risk culture that promotes a deep sense of risk awareness among the Bank's officers and staff.

Portfolio-level risk management involves the Department/ Division Managers and the Risk Management Department of the Bank (RMD).

The Department/Division Managers with the RMD are responsible for analyzing and controlling risks reported by the business units/ authorized risk-takers under them. They monitor the occurrence of policy breaches and procedural infractions, and deviations and ensure that the business and support units properly apply risk measures.

Should controls fail to address risks, the Department/ Division Managers should review attendant policies and propose workable adjustments when necessary.

The RMD/Department/Division Managers collate and consolidate all risk reports from its various risk-taking units and prepare the necessary analysis. The RMD then submits the consolidated risk reports to the Board.

Portfolio-level risk reports generated by the Department/ Division Managers and RMD are escalated to the Board and Senior Management. These management reports provide snapshots of the overall risk positions of the Bank and enable the Board to evaluate performance from a risk-adjusted perspective and to initiate the necessary adjustments in the overall business strategy.

Risk Management at the Transactional Level is the first "line of defense." It comprises the business and support units directly responsible for the processes and the risks.

The transactional level involves specifics of day-to-day risk-taking activities performed by the risk owners or the Authorized Risk Takers (ARTs). All transactions of ARTs should conform to LBRB's policies and procedures and should be within specified limits and approving authorities.

Identification and recognition of risks and the occurrence of risk events are documented by the ARTs and reported to the Department/ Division Manager.

Risks are measured and quantified based on their impact on the unit's operations and the target revenues.

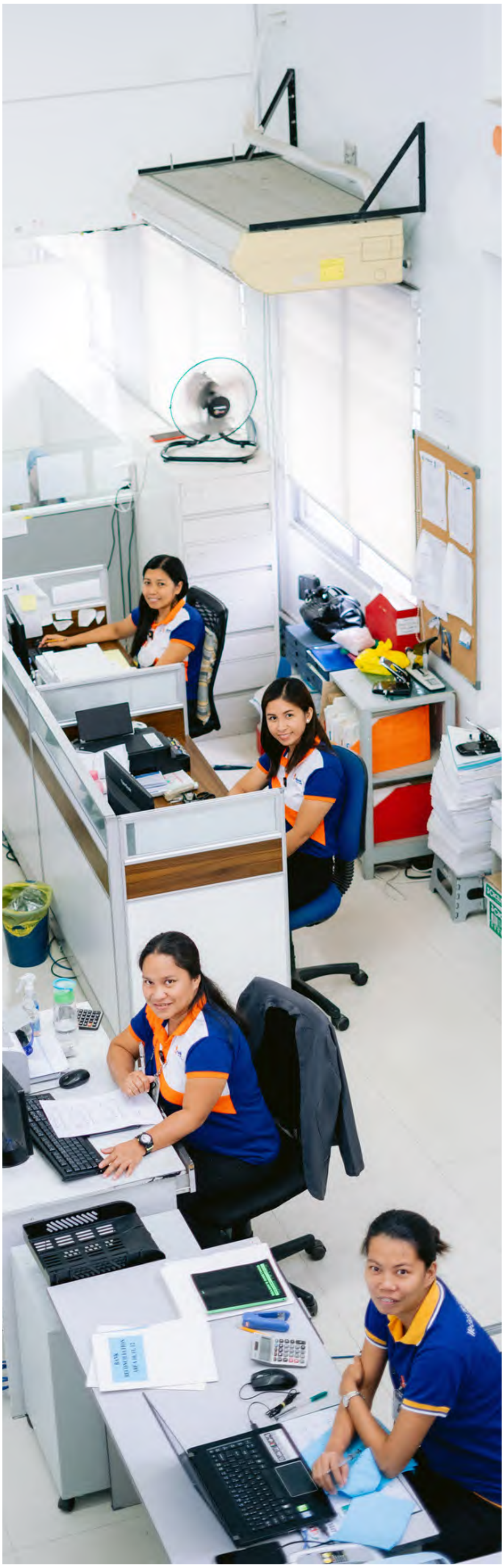
Risk Governance Structure and Risk Management Process

Reports on risk events, policy breaches, procedural infractions, and their corresponding risk mitigation strategies are elevated to the Unit Managers. LBRB's protocol ensures that risk reports are prepared regularly and submitted by the risk-taking units to the Unit Managers.

Risk Management Approaches

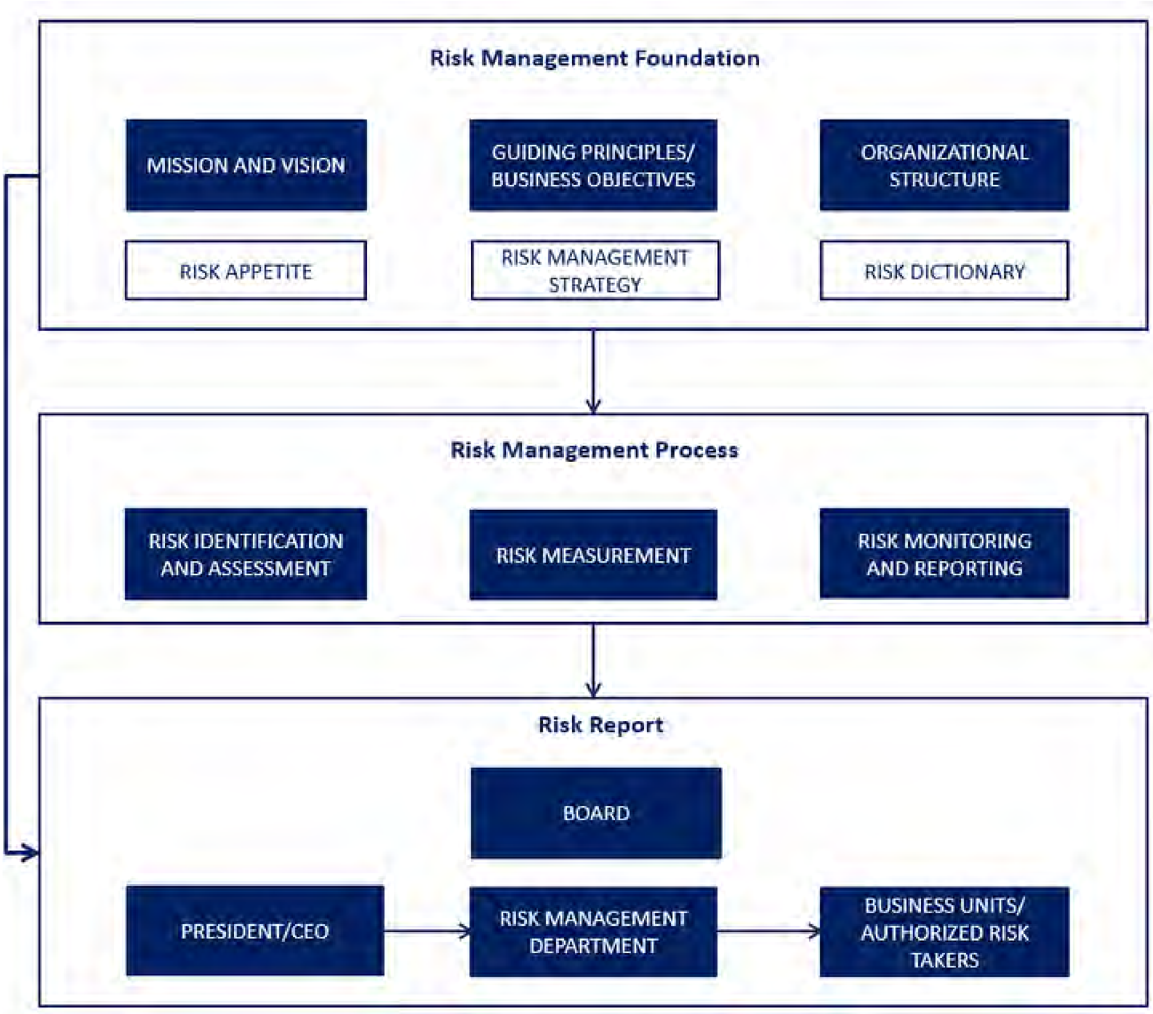
Risk management may be undertaken by using two approaches: The Silo and the Integrated Approach. The Silo Approach is used to tackle risks on an individual or compartmentalized basis. It is usually transactional and reactive, concentrating on how individual business units operate and perform and with each department responsible for managing its respective risks.

The Integrated Approach, on the other hand, is used by considering the risks at all levels of the organization, from strategic up to the day-to-day job of customer-facing employees. It is bank-wide and proactive and considers the units' interdependencies and the risks' inter-relationship.



Levels of Risk Management	Functional Delineation	Units Responsible
Strategic Level	Risk Appetite Setting Risk Policy Formulation and Approval Risk Culture Development	Board of Directors President/CEO Management Committee
Portfolio Level	Risk Identification, Analysis and Control Risk Policy Review and Recommendation Generation of Portfolio Reports	Department/Division Managers/Risk Management Department
Transactional Level	Risk Policy Implementation Risk Measurement and Monitoring Risk Mitigation Strategy Application	Business Units/ Authorized Risk Takers

Risk Management Framework



Risk Appetite and Tolerance

LBRB aims to be risk aware but not overly risk-averse and to actively manage risks to protect and contribute to the growth of the Bank. LBRB recognizes that it will take on certain risks to achieve its objectives.

The Bank aims to take risks in an informed and proactive manner, such that the level of risk is consistent with the potential rewards and that LBRB understands and can manage or absorb the impact of the risk if it materializes.

Management established such risk responses as are required to achieve the objectives per the acceptability of the risk. Quantified risk tolerances have been formulated and regularly updated by Management at each business-unit level. The Bank aims to avoid risks that could actively:

- Negatively affect the Bank's stakeholders (clients, employees, or other stakeholders);
- Negatively affect LBRB's reputation;
- Lead to laws or regulations being breached; or
- Endanger the future existence of the organization.

1. Introduction

This Statement considers the most significant risks to which the LifeBank "Bank" is exposed and outlines the approach to managing these risks. All strategic and business plans for functional areas must be consistent with this Statement.

2. General Statement of Risk Appetite

LifeBank faces a broad range of risks reflecting its responsibilities as a bank. These risks include those resulting from its duties in monetary, financial stability, payments/collection system policy, and its day-to-day operational activities.

The risks arising from the Bank's policy responsibilities can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high-quality staff, and public accountability.

Regarding operational issues, the Bank generally has a low appetite for risk. The Bank makes resources available to control operational risks to acceptable levels. The Bank recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

3. Coverage

The Bank's attitude and core values towards its critical strategic, financial, people, and operational risks are described below.

3.1. Strategic Risks

The Bank aspires to be among the leading rural banks, measured by the quality and effectiveness of its operations. This requires ongoing development and innovation in its operations through strategic initiatives, which often carry significant risks. The Bank has a low appetite for threats to these initiatives' effective and efficient delivery. It recognizes that the actual or perceived inability to deliver strategic initiatives could significantly impact its ability to achieve its objectives and reputation. The Bank's Senior Management meets regularly to discuss the significant initiatives.

A framework is in place to ensure that these initiatives are prioritized appropriately and that the associated risks are well-managed and reported consistently.

3.2. Liquidity Risks (Financial Risks)

The Bank does not aim to eliminate this risk as this would significantly impair its ability to achieve its policy objectives. Instead, the risks are managed to an acceptable level (low appetite) through a framework of controls.

The Bank acknowledges that there will be circumstances where the
risks carried on its balance sheet will have a material impact on its financial accounts. The Bank regards it as desirable to hold sufficient reserves to absorb potential losses.

The Bank manages this risk carefully by applying strict criteria to investments, confining its dealings to institutions of high creditworthiness, and ensuring that exposures to counterparties are appropriately secured, wherever feasible.

3.3. Operational Risks

The Bank's appetite for specific operational risks is detailed below. Risks are carefully analyzed in all of the Bank's operating activities, including ensuring that the benefit of the risk control measures exceeds the costs.

3.3.a. Fraud and Misappropriation

The Bank has no appetite for any fraud or misappropriation perpetrated by its staff. The Bank takes all allegations of suspected fraud or misappropriation very seriously and responds fully and reasonably as set out in the Code of Conduct and Ethics (CCE).

3.3.b. People and Culture Risks

The Bank's significant people and culture-related risks include:

Quality of People: The Bank relies on motivated, diverse, high-quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for quality staff who need to meet these standards is meager.

Conduct of People: The Bank expects employees to conduct themselves with a high degree of integrity, strive for excellence in their work and the outcomes they achieve, and promote the public interest. The appetite for behaviors that do not meet these standards is very low. The Bank takes any breaches of its Code of Conduct and Ethics (CCE) very seriously.

3.3.c. Security and Safety Personnel Security

The Bank is committed to creating a safe working environment for all its staff, protecting people from physical or psychological harm. It has a very low appetite for practices or behaviors that could be expected to lead to the team being harmed while at work.

Physical Security: The Bank provides a highly secure environment for its people and assets by ensuring its security measures meet high standards. The Bank has a meager appetite for the failure of physical security measures.

3.3.d. Information Technology

Information Technology (IT) risks cover daily operations and ongoing enhancements to the Bank's IT systems. These include:

Risk Appetite - The Assessment Matrix

	NO RISK	LOW	MEDIUM	HIGH
Operational Risk – Information Technology	No cases of Malicious Attacks & No incidents generated	100% availability of system & Not significant IT Related incidents generated by poor management practices	Significantly related incidents with regard to innovation and digitalized Bank operations	Cases of Malicious Attacks and Unavailability of System
Operational Risk – Fraud and Misappropriation	No Case of Fraud & Misappropriation	With cases but with no financial loss	With cases but resolved (below 10,000.00)	With cases but resolved (above 10,000.00)
Reputational Risk – Turnover Rate	N/A	Turnover Rate less than the Industry Average	Turnover Rate equal to the Industry Average	Turnover Rate More than the Industry Average
Reputational Risk	N/A	No Case of Customer Complaints	Not more than 3 cases of Customer Complaints	More than 3 cases of Customer Complaints
Data Privacy Remediation Gap	N/A	Percentage of Accomplishment: >75% ⩽100%	Percentage of Accomplishment: >50% ⩽75%	Percentage of Accomplishment: <50%
Liquidity Risk – Minimum Liquidity Ratio	N/A	Not less than the MLR required by BSP (20%)	N/A	Less than the MLR required by BSP (20%)
Interest and Market Risk	N/A	No case of Deliberate and Purposeful Violations of internal policies resulting in a negative effect on income	N/A	Cases of Purposeful Violations of Internal Policies resulting in Negative Effects on Income
Compliance Risk	No case for violations of legislative or regulatory requirements	N/A		The case for violations of legislative or regulatory requirements
Internal and External Regulatory Findings	N/A	CRD's overall risk rating is low risk as per the audit	SDID's overall risk rating is low risk as per the audit	
Credit Risk – PAR Ratio	N/A	< PAR Industry Average	= PAR Industry Average	>PAR Industry Average
Strategic Risk	N/A	Percentage of Accomplishment: >75% ⩽100%	Percentage of Accomplishment: >50% ⩽75%	Percentage of Accomplishment: <50%

Corporate Governance Structure and Practices

Corporate Governance

Corporate governance in LifeBank is about effective oversight, strict compliance with regulations, and sustainable value creation to promote the best interest of its various stakeholders.

A. GOVERNANCE STRUCTURE

Board of Directors

Responsibility for good governance lies with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices. It oversees management performance, the enterprise risk management, internal control systems, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and the Chief Executive Officer (CEO).

The Board is composed of eleven (11) members. The members of the Board are all professionals with various expertise in fields relevant to LifeBank's business and strategic plans such as investment banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, information technology, sustainability, and risk management.

It is led by a Non-Executive, Independent Director Chairperson with one (1) Independent Director, seven (7) Non-Executive Directors, and two (2) Executive Directors who are the the President /CEO and treasurer.

B. SELECTION PROCESS OF THE BOARD AND SENIOR MANAGEMENT

BOARD MEMBER SELECTION

The existing members of the Board of Directors can invite or nominate a stockholder regardless of the shares being held, particularly if the person's expertise, capacity, or specialized knowledge on a certain area is needed for the growth and development of the Bank. It is essential that a person possess a character of fairness and objectivity; who can think independently; and make decisions aligned with the vision and mission of the bank; and, who express opinions that support the best interests of the Bank.

SELECTION OF SENIOR MANAGEMENT

The Bank provides opportunities for existing employees to be appointed to managerial positions by enforcing a succession planning program that identifies potential managers even before vacancies occur. This facilitates an objective and transparent selection process of employees who will be appointed to management levels. However, if nobody among the existing employees are qualified for promotion to management levels at the time of a vacancy, the management exercises its prerogative to recruit and hire from outside of the Bank to ensure that operations are not hampered due to the absence of a management person who can undertake the functions.

C. THE BOARD'S OVERALL RESPONSIBILITY

1. To provide overall direction to the Bank in order to achieve its vision and mission.

2. To approve and monitor the implementation of strategic objectives.

3. To pass, approve and adopt relevant policies governing major areas of banking operations and exercise oversight.

4. To approve and adopt risk management policies and oversee its implementation and ` compliance.

5. To oversee selection and evaluate the performance of senior management.

6. To ensure consistency on the conduct of LBRB's affairs with a high degree of integrity.

7. To define and establish LBRB's governance policies and institutionalize practices by issuing guidelines for its compliance and implementation.

8. To conduct periodic review of policy implementation for purpose of amendment, improvement or enhancement.

9. To form committees that will increase efficiency and allow deeper focus on specific areas of concerns.

10. To utilize effectively the work conducted by the internal audit, risk management and compliance functions and the external auditors.

D. ROLE AND CONTRIBUTION OF THE CHAIRPERSON OF THE BOARD

The Chairperson of the Board provides leadership to the Board of Directors. The chairperson ensures an effectively functioning Board of Directors and that relationships among members are maintained based on trust and confidence.

The chairperson ensures the following:

- That the meeting agenda focuses on strategic matters, including discussion on risk appetites and key governance concerns;
- A sound decision making process;
- That critical discussions are properly facilitated;
- That dissenting views can be expressed and discussed within the decision-making process;
- That members of the board receive accurate, timely, and relevant information;
- That the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- That performance evaluation are conducted among the Board of Directors at least once a year.

E. BOARD'S COMPOSITION

Name of Director	Position/Type of Directorship	Number of Year as Director	Total Number of Direct(D) and Indirect (I) Shares as of December 31, 2022	Percent to Total Outstanding Share
John Aloysius S. Bernas	Chairperson/Non-executive Director/Independent Director	1 year and 9 months	1 (D)	0.00
Rosario B. Perlas	President/CEO/Executive Director	17	9,638 (D)	6.93
Ruth T. Jarantilla	Treasurer/Executive Director	19	930 (D)	0.67
Vicente P. Perlas	Non-Executive Director	35	14,847 (D)	10.67
Hermie R. Barbasa	Non-Executive Director	13	9,067 (D)	6.52
Miguel Antonio O. Perlas	Non-Executive Director	22	5,576 (D)	4.01
Carlo K. Perlas	Non-Executive Director	5	3,633 (D)	2.61
Mikka Ella B. Perlas	Non-Executive Director	5	1,287 (D)	0.92
Jesus Nicanor P. Perlas III	Non-Executive Director	13	4,075 (D)	2.93
Joselita M. Perlas	Non-Executive Director	1 year and 2 months	1 (D)	0.00
Clea P. Amenamen	Independent Director	1 year and 9 months	1 (D)	0.00

F. BOARD OF DIRECTORS' QUALIFICATIONS

John Aloysius S. Bernas
Chairperson of the Board and Independent Director

Age: 61 Nationality: Filipino
Number of Years Served as a Director: 1 Year and 9 Months

Education:
- MA in East Asian Studies - Graduate School of Arts and Sciences, University of Virginia
- MBA - Darden School of Business - University of Virginia
- AB Economics with Honors - Ateneo de Manila University

Directorship in Other Companies:
- Global Advisory Board and Senior Advisor for the Philippines - LeapFrog Investment
- Independent Director - Credit Access Asia Philippines
- Independent Director - Intellicare Group
- Independent Director - Tonic Digital Bank Inc.
- Chairman of the Board - Transnational Education
- Chairman of the Board - Coldfront Technologies PTE, LTD.
- Director - MILVIK (BIMA) Philippines Insurance

Rosario B. Perlas M.D.
President/Chief Executive Officer and Director

Age: 59 Nationality: Filipino
Number of Years Served as a Director: 17 Years

Education:
- Doctor of Medicine - West Visayas State University

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.
- Director - BlueFields Trading Post Inc.

Ruth T. Jarantilla
Treasurer and Non-Executive Director

Age: 85 Nationality: Filipino
Number of Years Served as a Director: 19 Years

Education:
- BS Pharmacy - University of San Agustin

Vicente P. Perlas, M.D.
Director

Age: 72 Nationality: Filipino
Number of Years Served as a Director: 35 Years

Education:
- Doctor of Medicine - West Visayas State University
- Masters in Business Administration (MBA) - University of the Philippines, Diliman

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.
- Director - BlueFields Enterprises Inc.

Hermie R. Barbasa
Director

Age: 69 Nationality: Filipino
Number of Years Served as a Director: 13 Years

Education:
- BS Civil Engineering - University of Iloilo

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.

Miguel Antonio O. Perlas
Director

Age: 50 Nationality: Filipino
Number of Years Served as a Director: 22 Years

Education:
- AB Communication - Ateneo De Manila University

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.
- Edgepro Trading, Inc.

Carlo K. Perlas
Director

Age: 38 Nationality: Filipino
Number of Years Served as a Director: 5 Years

Education:
- MA in Communications - Major in Integrated Marketing Communications - University of Asia and the Pacific
- AB in Humanities - University of Asia and the Pacific

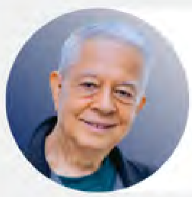
Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.
- Tower of Doom Inc.

Mikka Ella B. Perlas
Director

Age: 33 Nationality: Filipino
Number of Years Served as a Director: 5 Years

Education:
- BSBA Marketing - University of the Philippines Visayas

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.
- Project Healthy Kitchen OPC
- Healthy Kitchen Cafe OPC
- Mamaca Food Inc.



Jesus Nicanor P. Perlas III
Director

Age: 72 Nationality: Filipino
Number of Years Served as a Director: 13 Years

Education:
- BS Agriculture, MS Botany - Xavier University

Directorship in Other Companies:
- Board of Trustees - Lifebank Microfinance Foundation Inc.

Clea P. Amenamen, CPA
Independent Director

Age: 59 Nationality: Filipino
Number of Years Served as a Director: 1 Year and 9 Months

Education:
- Certified Public Accountant
- Units in MBA - Ateneo Graduate School of Business
- BS Business Administration, Accountancy - University of the Philippines Visayas

Joselita M. Perlas
Director

Age: 59 Nationality: Filipino
Number of Years Served as a Director: 1 Year and 2 Months

Education:
- Bachelor of Laws - Manuel L. Quezon University - Manila
- BS Economics - Lyceum of the Philippines Manila

Joseph A. Perlas
Corporate Secretary

Age: 60 Nationality: Filipino

Education:
- BS Business Administration - University of the Philippines Diliman

G. LIST OF BOARD LEVEL COMMITTEES

The Board of Directors has delegated certain functions to various committees to enable a more focused and specialized attention on specific areas. These are the following:

Name	Audit Committee	Credit Committee	Operations Committee	Sustainability Committee	Nomination/Remuneration Committee	Business Transformation Committee
John Aloysius S. Bernas	M		C		M	M
Rosario B. Perlas		M	M	M	M	M
Ruth T. Jarantilla		M	M			
Vicente P. Perlas		M		M	C	
Hermie R. Barbasa	M					
Miguel Antonio O. Perlas		C				M
Carlo K. Perlas			M	M		C
Mikka Ella B. Perlas		M		C	M	M
Jesus Nicanor P. Perlas III				M	M	
Joselita M. Perlas	M			M		
Clea P. Amenamen	C				M	M

C - Chairman M - Member

OPERATIONS COMMITTEE

Function

- Assist the Board of Directors in fulfilling its duties and responsibilities with respect to approval of all operational policies and procedures of the Bank and handle other duties that may be delegated by the Board of Directors.

Structure and Membership

- Composed of the Chairman, two (2) members of the Board and COO representing management. The President sits as Ex Officio member.

Meetings and Attendance

- The Operations Committee shall conduct regular meetings once a month. A special meeting of the Operations Committee may be called by the Committee Chairman from time to time whenever necessary.

SUSTAINABILITY COMMITTEE

Function

- Monitor the risk environment of the Bank and provide direction for the activities to mitigate the risk at an acceptable level that may adversely affect the Bank's ability to achieve its goals.

Structure and Membership

- The Sustainability Committee shall be composed of at least three (3) members of the Board of Directors.

Meetings and Attendance

- The Committee shall meet regularly, preferably once a month, at such date, time and place to be fixed by the Committee. Special meetings shall be convened as considered necessary by the Committee.

NOMINATION/REMUNERATION COMMITTEE

Function

- Oversee and approve the remuneration, benefits and incentives policy of the Bank and its implementation.
- Oversee the nomination process for members of the Board of Directors, top management and key employees of the Bank.

Structure and Membership

- The Nomination/Remuneration Committee shall be composed of at least three (3) members of the Board of Directors

Meetings and Attendance

- The Committee shall conduct regular meetings at least quarterly, and each regular meeting shall be conducted at least one (1) week prior to the regular meeting of the Board. Special meetings may be called by the Committee Chairman from time to time whenever necessary.

BUSINESS TRANSFORMATION COMMITTEE

Function

- Assist the Board in creating and overseeing strategies that will lead to the transformation of the bank to ensure its survival, growth, and success in the years to come.

Structure and Membership

- The Business Transformation Committee shall be composed of at least six (6) members of the Board of Directors.

Meetings and Attendance

- The Business Transformation Committee shall meet at least once per month, but can conduct more meetings as often as needed. Date, time, and venue of meetings will be determined by the Committee.

H. DIRECTORS' ATTENDANCE IN BOARD AND COMMITTEE MEETINGS

Name	Board Number of Meetings (12)		Audit Committee Number of Meetings (12)		Credit Committee Number of Meetings (11)		Operations Committee Number of Meetings (6)		Sustainability Committee Number of Meetings (2)		Nomination/ Remuneration Committee Number of Meetings (1)		Business Transformation Committee Number of Meetings (9)	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
John Aloysius S. Bernas	12	100	11	91.67			6	100			0	0	6	66.67
Rosario B. Perlas	12	100			11	100	6	100	2	100	1	100	9	100
Ruth T. Jarantilla	11	91.67			7	63.64	5	83.33						
Vicente P. Perlas	12	100			10	90.91			0	0	1	100		
Hermie R, Barbasa	12	100	7	58.33										
Miguel Antonio O. Perlas	12	100			9	81.81							9	100
Carlo K. Perlas	11	91.67					6	100	2	100			9	100
Mikka Ella B. Perlas	12	100			11	100			2	100	1	100	9	100
Jesus Nicanor P. Perlas III	9	75							2	100	1	100		
Joselita M. Perlas	11	91.67	12	100					0	0				
Clea P. Amenamen	12	100	12	100							0	0	8	88.89

I. SENIOR MANAGEMENT

	Name	Position	Previous Positions
1	Rosario B. Perlas	President/CEO	
2	Rodolfo P. Yap III	Chief Operating Officer	
3	Reynabelle M. Masacote	Manager - Human Development Department	Internal Audit Head 2012-2018
4	Mark Jayson A. Flores	Manager - Finance Department	
5	Francisco G. Jordan	Manager - Branch Banking Operations Department	
6	Rosalie F. Laubenia	Manager - Sustainable Development Investment Department	SDID IMP Division Manager 2018-2021
7	Alner C. Camocon	Manager - Sustainable Development Investment Department	
8	Nestor G. Lena	Manager - Credit Relationship Department	
9	Norman M. Barrios	Manager - Administrative Department	SDID IMP District Manager 2013-2021
10	Tom Ervin Clint S. Sudario	Manager - Knowledge Manangement and MIS Division	Knowledge Management Section Manager 2021-2022
11	Romeo S. Banday Jr.	Manager - Information Technology Division	ICT Section Manager 2011-2016
12	Syril Jun M. Advincula	Security Officer	Assistant Security Officer
13	Johna Mae A. Oresco	Manager - Strategic Research Development and Incubation	Administrative Department Manager
14	Marjorie M. Nieva	Chief Compliance Officer	Risk Management Officer 2018-2021
15	Opalyn M. Lopez	Risk Management Officer	KMMIS Division Manager 2018-2022
16	Anthony G. Plaza	Internal Audit Head	SDID and Non-SDID Auditor

LifeBank's Senior Management Team




ROSARIO B. PERLAS, M.D.
President/CEO

RODOLFO P. YAP III
Chief Operations Officer

REYNABELLE M. MASACOTE , CPA
Manager - Human Development Department

MARK JAYSON A. FLORES, CPA
Manager - Finance Department

Manager - Branch Banking Operations
FRANCISCO G. JORDAN

Manager - Sustainable Development and Investment Department
ROSALIE F. LAUBENIA

Manager - Sustainable Development and Investment Department
ALNER C. CAMOCON

Manager - Credit Relationship Department
NESTOR G. LENA, CPA







NORMAN M. BARRIOS
Manager - Administrative Department

TOM ERVIN CLINT S. SUDARIO
Manager - Knowledge Management and MIS Division

ROMEO S. BANDAY JR.
Manager - Information Technology Division

SYRIL JUN M. ADVINCULA
Safety Officer

Manager - Strategic Research Development and Incubation
JOHNA MAE A. ORESCO

Chief Compliance Officer
MARJORIE M. NIEVA

Risk Management Officer
OPALYN M. LOPEZ

Internal Audit Head
ANTHONY G. PLAZA




J. THE PERFORMANCE ASSESSMENT PROGRAM

The evaluation process involves identification of areas for assessment. It started by accomplishing the applicable Performance Evaluation Form (PEF). The Chairperson then conducts interviews with individual directors, analyze the responses in the PEFs and from interviews; and make a report of the findings to the Board of Directors.

The Board of Directors deliberates the report and develops an action plan, and periodically review the progress of implementation. The performance evaluation is undertaken by the Board of Directors every end of the term of each of the board members which is during the election of board members every Annual Stockholder's Meeting.

Each Director should have the opportunity to meet with the Chairperson on an annual basis to discuss the contribution they have made to the board in the previous 12 months, plans for the next year considering the learning and development needs. It can also be a part of the performance evaluation of the board as required by the BSP.

In the conduct of the performance evaluation, the Chairperson of the Board of Directors, evaluates all the members of the Board, including the committee chairpersons, and the President/CEO while the Chairpersons of all the committees will do the initial evaluation of their members before submitting the same to the Board Chairperson for review and final evaluation.

The Board Chairperson will perform a self-performance evaluation. The implementation of the Succession Plan will be undertaken as follows:

1. The appointed Corporate Secretary is tasked to ensure that the rules and regulations prescribed by the BSP with regards to membership in the Board as stated in Section 141 of the Manual of Regulations for Banks (MORB) are complied with.

2. The Human Development – Organizational Development Division (HDOD) should keep a record of all trainings attended by all members of the Board of Directors and ensure that they are able to attend all other trainings required by the BSP. A copy of their training certificates are filed for the purpose of monitoring and updating.

3. The HD-OD develops the tools for use in the implementation of the succession planning policy for the Board of Directors, and submit regular updates to the Chairperson of the Board, such as the following:

4. Stockholders who are identified to become successors for Board officership (President, Chairperson of the Board, Treasurer, Secretary and Committee Chairs) should meet the following requirements in addition to the BSP requirements:

They must be chosen as a representative of an ownership cluster representing a minimum number of shares to be entitled to one board seat and must have.
They must have undergone the necessary orientation to perform the responsibility of being a Board of Director They must have been actively involved with the Board as a member of its committees, at least 12 months from the date of appointment.

In case of vacancy, appointment to the Board must have the approval of the majority of the existing board members.

5. Potential successors should attend all trainings required by the BSP (i.e. AMLA, Corporate Governance, etc.) to prepare them for the responsibilities and make them readily qualified to sit as members of the Board when a vacancy occurs.

6. The potential successors as well as incumbent members of the Board 's record must be updated with the HD-OD and compliance head overseeing the compliance to trainings and the Corporate Secretary should provide a copy of their certificates of trainings and other achievements to form part of the regular monitoring of potential successors.

PERFORMANCE MANAGEMENT SYSTEM

The Performance Management System is a systematic process of aligning employees' performance with the goals of the organization. One of its purposes is to assess and ensure that the employee is carrying out their duties which they are employed to do in an effective and satisfactory manner, and is contributing to the overall business objectives. This drives non-performers to perform well and implements fairness in rating.

In connection with this, a tool has been created to measure the employees' performances, and this has also been modified, simplified and customized to our needs in order to be effective and user friendly.

The Performance Evaluation and Development Form (PEDF) is a tool used to all Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees of the Bank, in order to measure the performance and to develop competencies and address weaknesses.

K. ORIENTATION AND EDUCATION PROGRAM

TRAINING POLICY

Trainings are necessary to ensure that the Bank is able to address the needed knowledge and skills of Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees to reduce employee turnover and become better talents that they may develop into more effective and efficient talents, resulting in financial gain.

A. INTERNAL TRAINING

Trainings conducted exclusively within the organization by an internal trainer.

B. EXTERNAL TRAINING

Trainings provided from outside of the organization using consultants, specialists and outsourced speakers. These are also public seminars or trainings attended by the employee.

C. ON-THE-JOB TRAINING

As part of continuously educating its employees in the job sites, periodic shuffling and job rotations are being practiced. This will motivate employees to learn related jobs in their place of work and enable them to become well rounded practitioners of the Bank's varied services.

L. RETIREMENT AND SUCCESSION POLICY

RETIREMENT AND SUCCESSION PLANNING

To ensure that the Bank is led and run by adequately qualified and well-experienced Board of Directors, officers and managers as well as to support the Bank's policy on promotion from within, a succession plan is being established to systematically and objectively identify highly potential employees who can be developed as successors to key positions in the Bank. This will facilitate continuous leadership and a smooth transition of functions during turnover or vacancy of posts. This will also ensure that processes, systems and procedures are maintained despite the changing of roles among personnel responsible for essential tasks and significant decisions affecting Bank's overall management and vital operations.

The Bank has established a succession plan in order to achieve the following objectives:

1. Determine critical roles within the Bank, identify and assess possible successors, and provide them with the appropriate skills and experiences for present and future, higher opportunities;

2. Assist in facilitating the transfer of corporate skills and knowledge from a superior to a subordinate who has potential to succeed him;

3. Operate within the principles of merit and transparency in the personnel selection and promotion processes;

4. Develop personnel capabilities and competencies to ensure that there is a suitable pool of potential applicants when positions become available or turn vacant

5. Have on hand the right people with the right skills in the right place at the right time, thereby building a security net for the Bank and mitigating risks that could result in having leadership gaps and prolonged vacancies that could affect management decisions in the Bank.

GUIDELINES

1. Employees who are included in the Pool of Promotable (refer to Policy on Promotion) shall initially compose the LBRB Succession Pool (LSP).

2. In addition to meeting the LSP requirements, potential successors shall undergo a series of assessments to determine their capabilities to pursue the trainings and other undertakings that they are required to hurdle.

3. The HDD shall spearhead the implementation of the Succession Plan and create a Management Development Program (MDP) for the purpose.

4. Potential successors should have a grade of "Passed" in all stages of the required activities. Those who do not meet this requirement shall remain in the Promotable Pool and may be considered for lower supervisory/managerial positions that become vacant.

5. A team of trainers may be created from outside sources/ experts who will initiate the process, and among the current Division/Department Managers who are found qualified to train, coach or mentor the potential successors. These trainers will also undergo assessment of their capabilities and be given Board appointment.

6. Evaluation of progress shall be on a quarterly basis. HDD shall monitor their progress and achievements and submit a report to the President on a regular basis.

7. The potential successors, while taking part in the MDP shall be relieved of their usual workloads, but they will enjoy regular pay and training allowances as may be approved by the Board.

8. These potential successors shall be obliged to sign an agreement that will be enforced within the period of their involvement in the MDP. A fixed term of employment may be set before they can be allowed to leave the Bank for whatever personal reasons; otherwise they will be required to pay back the cost incurred on their participation in the MDP as may be prescribed by the Board.

9. There shall be no more than ten (10) candidates for an MDP batch in order to ensure that they are given enough time and attention during the trainings and they are well guided during their actual job exposure or practicum.

10. Those employees who are 55 years old at the start of the succession planning process may no longer be considered in the MDP to ensure that those who pass the MDP will not be nearing the retirement age by the time they finish the MDP.

11. The Board of Directors, Board Committee Chairperson and members will be given trainings based on BSP required trainings as per stated in MORB, committees they handled and the result of the evaluation. As for Senior Management and Supervisors the development programs shall involve the following phases as enumerated below:

a. Attendance in Supervisory and Management Trainings (internal/external) to include topics on:

For Supervisory Development Program (SDP):
- Management Principles
- Communication Strategies
- Leadership and Team Building
- Marketing and Sales Skills Development
- Financial Management
- Business Ethics and Social Responsibility
- Performance Management
- Human Development Management

For Management Development Program (MDP):
- Management and Organization
- Banking and Financial Intermediation
- Risk Management and Control
- Strategic Thinking and Decision Making
- Good Corporate Governance
- Trainer's Training
- Leadership Activation on Demand (LeAD)

b. Coaching and Mentoring – which involves assigning a potential successor to work closely with a Division/Department Manager who will regularly show him/her how work is being done and decisions made in the work unit.

c. Shadowing – which allows the potential successor to help or assist the Division/Department Manager as an understudy in the quasi-supervision or overseeing of the work unit, or in acting on the latter's behalf as Officer-in-Charge.

d. Inter-department Job Rotation - after having passed the previous phases, HDD will transfer the potential successors to another Division/Department so that the potential successor may learn the work processes and other business aspects of the Bank in various units. As a way to measure their learning progress, the potential successors may be subjected to comprehensive written and oral examinations before a panel consisting of selected members of the Management Committee and the Board as may be decided upon by the President.

PROCEDURES

1. Identifying the critical management positions and leadership qualities.

In identifying potential successors, Management looks beyond basic skills and knowledge required to perform an adequate job and into the deeply rooted capabilities an individual's social role, self-image, traits, and motives that can most accurately determine high-potential candidates. The parameters for identifying leadership roles and critical positions include:

1. Cognitive capacity
2. Systems thinking
3. Emotional and social intelligence
4. Creativity
5. Values alignment with the Bank's vision, mission, goals, culture.

Based on the above-cited parameters, the specific skills, capabilities, knowledge and qualifications required for success in all leadership roles and critical positions should be observed in a candidate.

The following positions shall be included in the Succession Plan of the Bank:

- President
- Chief Compliance Officer
- Internal Audit Head
- Risk Management Officer
- Chief Operating Officer
- Chief Finance Officer
- Chief Human Development Officer
- Chief Information & Communication Technology Officer
- All Department Managerial Positions
- All Division Managerial Positions

2. Developing the Succession Plan

After the leadership roles and critical positions are identified, we now know what our needs are both for the present and future and we can create a more comprehensive competency list based on our staffing needs. The following steps should be observed, namely:

a. Identify the future vacancies in the higher levels of the organization.

b. Create/develop a more detailed job description (JD) for the positions complete with the knowledge, skills, and experience that are required for success for anyone assuming the role. The JDs should include the competencies defined in identifying the leadership roles and critical positions.

c. Detail the type of learning and development curriculum that will be provided to train team members for these vacancies. Such development programs will be in line with developing the skills set for the defined leadership roles and critical positions which take the form of:

- Training
- Mentoring
- Shadowing Senior Leaders
- Coaching
- Intra-departmental movement in line w/ vacancy policy
- Inter-departmental rotation programs

3. Populating the Succession Pool

An evaluation of the current employees to identify talent pool candidates will then be undertaken. HDD and their respective Department Heads will identify high performers as well as team members who display great potential. This stage includes:

a. Reviewing performance metrics using the new Performance Management System (PMS), referrals, and past work experience.

b. Having a conversation with employees who are being considered for the succession pool about their career plans.

c. Assessing each individual on their ability to excel and take the Bank to new heights

4. Retirement Age and Tenure

BOARD OF DIRECTORS

a. No age limit, as long as he/she is capable of sound decision making and business judgement;

b. Physically and mentally fit. No major health issues and is able to attend BOD and Committee meetings as prescribed by BSP Circular 969 series of 2017.

QUALIFICATIONS OF A DIRECTOR

a. He must have integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time fully carry out responsibilities.

b. He must have attended seminar on corporate governance for board of directors.

INDEPENDENT DIRECTORS

May only serve for a maximum cumulative term of nine (9) years as prescribed by BSP Circular 969 series of 2017.

SENIOR MANAGEMENT

Retirement Employees shall retire upon reaching the age of sixty (60) years or more but not beyond sixty-five (65) years old and having served the establishment for at least (5) years.* *Chapter 15, Article 302 of Department of Labor and Employment's, Workers' Statutory Monetary Benefits.

M. REMUNERATION POLICY

LIFEBANK - A RURAL BANK REMUNERATION POLICY - BOARD AND SENIOR MANAGEMENT

The remuneration policy of the Bank is one of the key components of the HR strategy, which supports the overall business strategy. It promotes the achievement of the strategic objectives within the Bank's risk appetite.

The Bank implemented a new salary structure last October 2017. It shall be reviewed every two (2) years to ensure that it is competitive within the industry, helps build a culture of high performance, and can attract, retain, motivate and reward high performing employees.

For Board members, the compensation is by way of Honorarium given during its monthly Board meetings. The monthly honorarium to Board members is reviewed annually by the stockholders during the Annual Stockholders' meeting. Any increase will depend on the financial performance and condition of the Bank during the previous year. The increase in honorarium is not automatic and requires an improvement in the Bank's financial condition. The President/CEO recommends to the stockholders any increase in honorarium of board members.

The President/CEO is appointed by the Board of Directors. The remuneration for this position is determined and decided upon by the Board. Any increase in salary of the President/CEO is anchored primarily on the achievement of strategic initiatives and the financial condition of the Bank. The salary is reviewed together with the general salary review every three (3) years. Any positive adjustment is taken up during a Board meeting and approved by the Board.

For other Senior Management positions, the remuneration follows the recommendation of the Human Development Department (HDD) after the general salary review. Any new salary structure which is recommended by HDD needs to be reviewed and approved by the Board of Directors.

N. RELATED PARTY TRANSACTIONS (RPTs)

In accordance with the regulations, policies and guidelines on Corporate Governance issued by Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and other regulatory bodies, LBRB recognizes the need to strengthen its policy on related party transactions (RPT) and other similar situations so as to prevent or mitigate abusive transactions with related parties and avoid risks of conflict of interest.

This is also in consonance with LBRB's adherence to the highest principles of good governance as the bank subscribes to the philosophy of integrity, accountability and transparency in doing business.

Similarly, Philippine Accounting Standard (PAS) 24 Related Party Disclosures provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank considers the following factors to the extent relevant to the Related Party Transaction.

(a) The identities of the parties involved in the transaction or relationship;

(b) The terms of the transactions are fair and on arm's length basis to the Bank;

(c) The impact on the Director's or Officer's independence;

(d) Whether the RPT would present an improper conflict of interest for any Director, Stockholder or Officer of the Bank; and

(e) Material RPTs will be reported to regulatory agencies as required and shall be ratified and approved by authorized signatories of the Bank.

REVIEW AND APPROVAL OF RPTs

a. All credit and non-credit RPTs go through the normal approval process of the Bank given the delegated discretion after due consideration to existing DOSRI and Single Borrower's limits.

b. Upon approval, all Php1,000,000.00 and above RPT including transactions falling under the Ordinary Course of Business with deviation are referred to the Board. The Board reviews, ratifies, and approves these RPTs

c. The Board will consider the following factors to the extent relevant to the RPT in conducting an evaluation:

(i) the identities of the parties involved in the transaction or relationship;

(ii) the terms of the transactions are fair and on arm's length basis to the Bank;

(iii) the impact on the Director's or Officer's independence; and

(iv) whether the RPT would present an improper conflict of interest for any Director, Officer or Stockholder of the Bank.

d. For a transaction involving a sale of bank assets, the Board shall review the following:

(i) results of the appraisal, valuation methodology used as well as alternative approaches to valuation;

(ii) description of the asset including date acquired and costs basis;

(iii) information concerning potential counterparties in the transactions:

(iv) approximated value of the transaction and the approximated value of the related party's interest in the transaction;

(v) description of provisions or limitations imposed as a result of entering into proposed transaction;

(vi) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;

(vii) purpose of transaction; and

(viii) potential benefits to the Bank.

e. The Board approves and confirms all RPTs.

f. Any member of the Board who has interest in the transaction must abstain from participation in the review and approval of any RPT.

g. If an actual or potential conflict of interest arises on the part of a director, officer or stockholder, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction. Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.

h. Transactions entered into with an unrelated party that subsequently becomes a related party shall not be covered by this policy requirement unless alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party has been made.

i. Breaches in limits shall be reported to the Board with the decision of the Board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meeting.

O. SELF-ASSESSMENT FUNCTIONS

COMPLIANCE DEPARTMENT

Role and Mandate

The Compliance Department oversees the implementation of the LBRB's Compliance Risk Management System which is designed to identify and mitigate risks which may erode the franchise value of the Bank such as risks of regulatory sanctions, material financial loss or loss to reputationthe Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financial activities.

The Compliance Department performs the compliance function which is an independent function that defines, advises on, monitors and reports on the Bank's compliance risks. It shall facilitate effective management of compliance risk by: (a) advising the Board and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area; (b) apprising the Bank's personnel on compliance issues, and acting as contact point with the Bank for compliance queries from its personnel; (c) establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, code of conduct and practice guidelines, (d) identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units; (e) assessing he appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments; (f) monitoring and testing compliance by performing sufficient and representative compliance testing; and (g) maintaining a constructive working relationship with the BSP and other regulatory agencies.

The compliance function shall focus on identifying and mitigating risks (e.g., legal or regulatory sanctions, material financial loss, or loss to reputation) that may erode the franchise value of the Bank as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and code of conduct, or inability to manage conflict of interest, treat customers fairly and money laundering and terrorist financing activities.

Moreover, Compliance Department is also responsible for the management of LBRB's Money Laundering and Terrorist Financing Prevention Program (MTPP) and oversight of its implementation and conduct of AML Compliance Checking for Bank proper, independent from that performed by Internal Audit. The MTPP is geared toward the promotion of high ethical and professional standards and prevention of the Bank being used, intentionally or unintentionally, for money laundering and terrorism financing activities.

Authority

The compliance function shall have a formal status a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence.

It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors through the board-level Audit Committee.

Reporting Process

The Compliance Department reports functionally to the Audit Committee and provides periodic reports concerning the Bank's state of compliance with rules and regulations of BSP and other regulatory bodies.

INTERNAL AUDIT DEPARTMENT

Function

The Internal Audit Department (IAD) is an independent unit reporting functionally to the Audit Committee and administratively to the President. The IAD performs internal audit function which is an independent, objective, assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of LBRB, which helps management and the board of directors in protecting the Bank and its reputation.

The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, the internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

Mandate

Pursuant to Bangko Sentral regulations, LBRB has in place adequate and effective internal control framework for the conduct of its business taking into account its size, risk profile and complexity of operations. The internal control framework embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies.

Purpose, Authority and Responsibility

IAD, through the IAD Head, is authorized to direct a plan and program of internal control testing of LBRB policies, programs, procedures, actions, decisions, records, reports, personnel, properties, and operations as an effective tool and supply of information for internal control and review system and decision making policy. In accomplishing such function and activities, IAD shall have free and unrestricted access to all LBRB's functions, records, property, and personnel, full cooperation by the management and adequate resources to effectively discharge its function.

The Role and Scope of Internal Audit

Internal audit plays a vital role in governance and accountability. Without a strong, objective and independent assurance function, the effectiveness of the overall governance framework of the bank is severely weakened. With an effective internal audit function, there is greater confidence that the decisions being taken are informed by appropriate information on risk and control. Internal audit's systematic and disciplined approach adds value and improves the organization's operations.

The role of IAD function is to ensure that, the bank is provided with an independent assurance regarding the effectiveness of the risk management, control and governance process. The internal audit function fulfils this role by bringing a systematic, disciplined approach to assessing and improving the effectiveness of the bank's management, control and governance processes.

The scope of work of the internal audit function is to determine whether the bank's management, control and governance processes is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed;

2. Financial, managerial, and operational information is accurate, reliable and timely;

3. Compliance with policies, standards, procedures and applicable laws and regulation is achieved;

4. Resources are acquired economically, used effectively and adequately protected;

5. Programs, plans and objectives are achieved;

6. Quality and continuous improvement are fostered in the Department's control processes; and

7. Legislative or regulatory issues affecting the Department are recognized and addressed properly.

When opportunities for improving management control, governance, or resource stewardship are identified during audits, they are communicated to the suitable level of management so that appropriate action can be taken. The internal audit function plays an important role in supporting departmental operations. It provides assurance on all the important aspects of the risk management strategy and practices, management control frameworks and practices and governance. Where control weakness exist and where the achievement of objectives is at risk, internal audit plays a role in providing constructive advice and recommendations. In this way, internal audit contributes to enhanced accountability and performance.

Reporting Process

The Audit Committee's primary purpose is to provide assistance to the LifeBank Board in fulfilling its oversight responsibilities over the Bank's reporting policies, practices and control, internal and external audit functions.

The IAD reports to the Audit Committee the results of its assurance services, special audits, and other services to ensure that Senior Management is taking necessary corrective actions in a timely manner to address any weakness, noncompliance with policies, laws and regulations, and other issues identified by auditors.

The Audit Committee holds its meetings at least once a month to ensure the effectiveness and adequacy of the internal control system and that risks are properly managed. On top of the discussion and notation of the regular reports of the IAD and the Compliance Department, the Committee also deliberates on various issues and concerns related to the Bank's existing internal controls, potential breaches and vulnerabilities and likewise recommends ways and measures to strengthen internal controls and manage risks. The business units that fail in the audit are also required to present to the Audit Committee the status/action taken on audit's recommendations to address internal control breaches or related plans.

P. DIVIDEND POLICY

Dividends to stockholders are declared from the surplus profits arising from net income earned every fiscal year. The Board of Directors determine how much cash dividends to declare to stockholders based on the percentage increase in net income for the year compared to that of the previous year. Any planned investment or expansion of the business for the year is also considered before the final amount of cash dividends is recommended. Shareholders are either paid in cash or stock dividends on an annual basis. The Board ensures that such dividends declared is in accordance with applicable laws and guidelines set by the BSP.

Q. CONSUMER PROTECTION PROCESS

CONSUMER PROTECTION

The Consumer Protection Risk Management System (CPRMS) is a means by which a Bank identifies, measures, monitors, and controls consumer protection risks inherent in operations. These include both risks to the financial consumer and the Bank.

A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the Bank's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that the Bank's consumer protection practices address and prevent identified risks to the Bank and associated risk of financial harm or loss to consumers.

ROLE OF BOARD OF DIRECTORS (BOARD) AND SENIOR MANAGEMENT IN CONSUMER ASSISTANCE MANAGEMENT SYSTEM

The Board of the Bank shall be responsible for the delivery of effective recourse to its consumers. Pursuant thereto, the Board shall:

- Approve the Consumer
- Assistance policies and procedures;
- Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;

- Ensure compliance with Consumer Assistance policies and procedures;
- Provide adequate resources devoted to Consumer Assistance; and
- Review the Consumer Assistance policies at least annually.

The Bank's Senior Management shall be responsible for the implementation of the Consumer Assistance policies and procedures.

CORPORATE STRUCTURE

The Bank has a dedicated Head Consumer Assistance Officer (HCAO) directly reporting under the Office of the President and has the following Consumer Assistance Officers (CAO) deployed in Branches and BLUs:

- Branches – The Branch Operations Officers acts as the CAO
- BLUs – The SDID Area Managers acts as the CAO.

FILING A COMPLAINT

A Customer who has a request or complaint against the Bank's personnel, policies and procedures, system or defective property may file a complaint before the Customer Assistance Officer.

The customer may file a request or complaint by accomplishing a Complaint Form to be provided by the Bank. The Customer/Requester observes the following procedures:

SIMPLE COMPLAINT

STEP	PROCEDURE	RESPONSE TIME	PERSON IN-CHARGE	FORMS
1	Approach the Consumer Assistance Officer	1 minute	CAO	
2	Fill up the Complaint Form	5 minutes	CAO	Complaint Form
3	Submit the Complaint Form to the CAO	1-3 minutes	CAO	Complaint Form
4	Investigate the complaint or request	1-2 days	CAO	
5	Analyze the nature of complaints and prepare the recommended solutions	1-3 days	CAO	Memo
6	Approve the recommended solutions	1-2 days	HCAO	Memo
7	Provide official reply to the Customer	1-2 days	CAO	Letter

COMPLEX COMPLAINT

STEP	PROCEDURE	RESPONSE TIME	PERSON INCHARGE	FORMS
1	Approach the Consumer Assistance Officer	1 minute	CAO	
2	Fill up the Complaint Form	5 minutes	CAO	Complaint Form
3	Submit the Complaint Form to the CAO	1-3 minutes	CAO	Complaint Form
4	Refer the Complaint Form to the Head Consumer Assistance Officer (HCAO)	1-2 days	CAO	Memo
5	Investigate the complaint or request	1-30 days	CAO	
6	Analyse the nature of complaints and prepare the recommended solution(s)	1-10 days	HCAO	Memo
7	Review and Approve the recommended solution(s)	1-3 days	President/ CEO/Board	Memo
8	Provide official reply to the Customer	1-2 days	CAO	Letter

R. SUSTAINABILITY FRAMEWORK

LBRB's SUSTAINABILITY STRATEGY

1. Sustainability Objectives

LBRB strives to ensure that we embody our commitments as part of our key operational goals, environmental and social commitments, LBRB's efforts are focused on the following goals:

- Minimize the environmental impact of our Bank's internal operations through efficient use of resources.
- Promote projects that contribute to environmental protection through our banking activities;
- Assist financially challenged high school students of deserving client's children to pursue higher education in partnership with LMFI through its scholarship program;
- Supports community empowerment and resiliency through outreach activities and programs.
- Provide financial resources to projects and initiatives that directly affect the sustainable growth of the country and the extension of education through various financial literacy projects.

2. Environmental and Social Risk Management System (ESRMS)

The ESRMS of LifeBank – A Rural Bank provides granular expectations on the management of environmental and social risks in relation to credit and operational risk exposures of the bank.

LBRB sets strategic environmental and social objectives which cover short, medium, and long-term horizons but not limited to sustainable agriculture, agroforestry, forestry and fisheries, among others.

LBRB also implements policies, methods, and procedures to control operational risk deriving from environmental and societal hazards such as extreme weather conditions to promptly restart the operations and provide operational resilience.

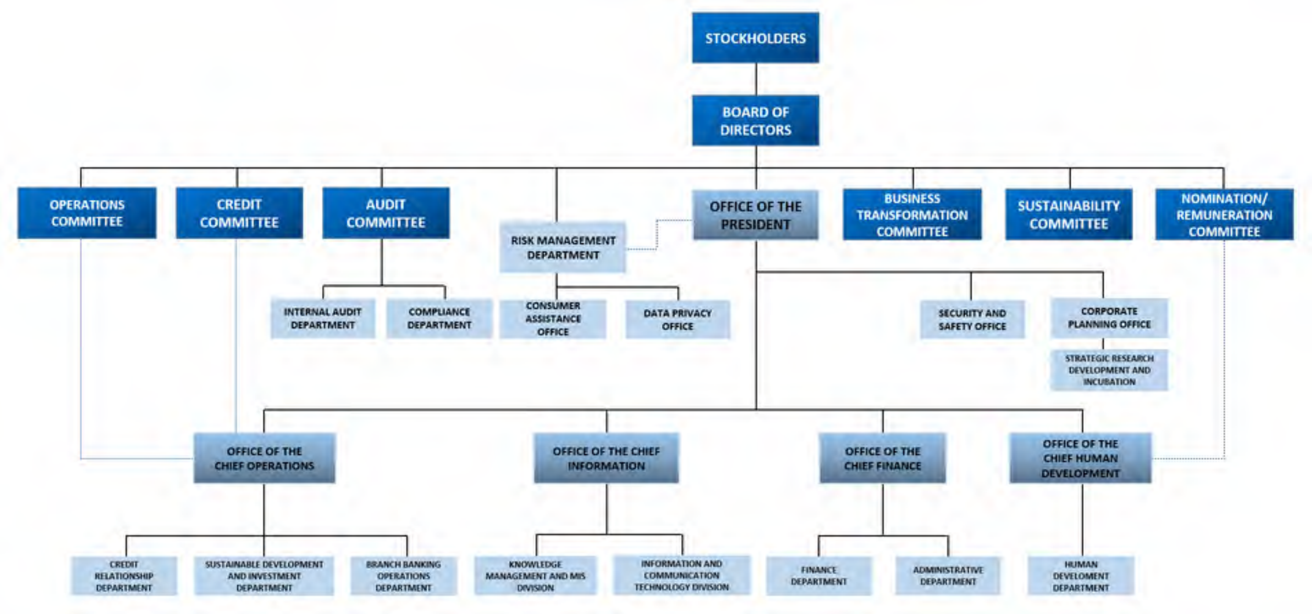
3. Products and Services Aligned with Sustainability Standards and Practices

LBRB intends to allocate an amount equal to the net proceeds of any Sustainable Financial Instruments (SFI) to finance and refinance the bank's sustainability loans to borrowers, its own operating activities, and projects in eligible Green and Social Categories but not limited to the following:

1. Sustainable Water and Wastewater Management
2. Resource Efficiency and Pollution Prevention and Control
3. Environmentally Sustainable Management of Living Natural Resources and Land Use
4. Clean Transportation
5. Renewable Energy

Corporate Information

A. ORGANIZATIONAL STRUCTURE



B. MAJOR STOCKHOLDERS OF THE BANK

#	Name of Director	Nationality	% of Stockholdings	Voting Status
1	Blue Fields Enterprises	Filipino	13.92	Voting
2	Joseph A. Perlas	Filipino	10.68	Voting
3	Vicente P. Perlas	Filipino	10.67	Voting
4	Rosario B. Perlas	Filipino	6.93	Voting
5	Bernardita J. Perlas	Filipino	6.53	Voting
6	Hermie R. Barbasa	Filipino	6.52	Voting
7	Jose P. Perlas	Filipino	6.0	Voting
8	Miguel Antonio O. Perlas	Filipino	4.01	Voting
9	Anunciacion P. Perlas	Filipino	3.37	Voting
10	Emmanuelle O. Perlas	Filipino	2.94	Voting

C. PRODUCTS AND SERVICES

PRODUCT NAME	DESCRIPTION
LifeSaver	A conventional way of savings and easy monitoring of your account transactions through a passbook.
LifeSaver Plus	Equivalent of time deposit but instead of a certificate, a passbook is given. Fixed term and higher interest than a regular savings. Can be withdrawn upon maturity.
LifeKiddie Savers	A passbook-based savings account for kids ages 7 to 12 years old with low initial deposit and maintaining balance.
LifeTeen Savers	A passbook-based savings deposit for teenagers ages 13 to 18 years old with low initial deposit and maintaining balance.
AGRILife	Is offered to small farmers and fisher folks engaged in the production of crops, poultry, livestock, and fishery.
LifeDRIVE	Is offered to qualified clients who want to acquire brand new or second hand vehicles including trucks and refinancing chattel loan from other financial institutions.
LifeHOME	Is a secured loan extended to individuals for the purpose of lot purchase, house construction, improvement and renovation.
LifeSECURE	Is a standby loan available to existing LifeSaver or Special Savings Deposit account holders that intend to bridge financial gaps for personal and other purposes.
LifePAC	A ready credit facility intended for Bank depositors with their deposit as collateral.
LifeSMILE	Is a secured loan Product for Micro-Scale, Small Scale and Medium Scale Projects.
Motorcycle Loan	A loan for a brand new motorcycle for personal or commercial use.
Educational Loan	Is a loan granted to deserving members who stay longer and shows good repayment record with benefits of the flexible term of payments and low interest rate.
WaSH Loan	Water, Sanitation and Hygiene (WaSH) loan is granted to LifeBank's existing clients to support their needs for a safe water sourcing and improved water facilities such as the construction of their water connection, toilet, and lavatory.
Ikabuhi Microfinance Program	IMP offers loans for entrepreneurs for start-up or additional capital with no collateral up to fifty thousand pesos (P 50,000.00). Fast and easy loan processing with affordable interest rates.
Ikabuhi Entrepreneurial Program (IEP)	IEP offers loans to all qualified entrepreneurs for additional capital with no collateral up to three hundred thousand pesos (P 300,000.00).

D. BANK'S WEBSITE

https://lifebankrb.com.ph

E. BANK'S DIRECTORY

HEAD OFFICE

LIFEBANK BUILDING
Brgy. Duyan-duyan, Santa Barbara, Iloilo 5002 Tel: (033) 332-1436 and (033) 523-4506

BRANCHES

MAASIN
14 Taft St., Maasin, Iloilo 5030
Tel: (033) 333-1439

ILOILO CITY
Brgy. Maria Clara, Iznart Extension, Iloilo City 5000 Tel: (033) 336-0924 , (033) 336-0426 and (033) 503-3193

ROXAS CITY
KM2 Lawaan, Roxas City, Capiz 5800
Tel: (036) 320-0077 and (036) 522-1097

BRANCH-LITE UNITS

PROVINCE OF ILOILO

BAROTAC NUEVO
Mabini Corner Zamora St., Ilaud Pob., Barotac Nuevo, Iloilo 5007 Tel: (033) 323-0375

MIAG-AO
Nico St., Brgy. Ubos Ilawod, Miag-ao, Iloilo
Tel: (033) 3327-0375

PASSI CITY
Commonwealth St., Passi City, Iloilo 5037
Tel: (033) 536-7994

SARA
Tady St., Sara, Iloilo 5014
Tel: (033) 331-9305

BALASAN
Brgy. Balanti-an, Balasan, Iloilo 5018
Tel: (033) 331-9305

OTON
J.P. Laurel St., Poblacion North, Oton, Iloilo
Tel: (033) 510-8501

POTOTAN
Guanco St., Pototan, Iloilo 5008 Tel: (033) 529-0032

BAROTAC VIEJO
Tupaz St., Barotac Viejo, Iloilo

LAMBUNAO
No.6 Loberiza Street, Poblacion Ilawod, Lambunao, Iloilo

CALINOG
Brgy Poblacion Rizal Ilawod, Calinog, Iloilo

SAN MIGUEL
RV Sanchez St., San Miguel, Iloilo

JANIUAY
Brgy. San Julian, Janiuay, Iloilo

ESTANCIA
Samonte St., Villa Paterna Subdivision, Estancia, Iloilo

LEGANES
National Road, Guihaman, Leganes, Iloilo

PROVINCE OF AKLAN

KALIBO
Abiera Rd. Roxas Ave. Ext., Andagao, Kalibo, Aklan
Tel: (036) 500-7198

CATICLAN
Villar Commercial Complex Caticlan, Malay, Aklan

ALTAVAS
Gregorio Bldg, Bonifacio St., Poblacion, Altavas, Aklan

MALINAO
Alfonso St., Malinao, Aklan

IBAJAY
Corner Conanan Solidium St., Ibajay, Aklan

BANGA
Linabuan Sur, Banga, Aklan

NUMANCIA
Laguinbanwa East, Numancia, Aklan

PROVINCE OF ANTIQUE

SAN JOSE
Bagumbayan, San Jose, Antique

CULASI
Cadiao St., Poblacion, culasi, Antique

BUGASONG
Moscoso St., Brgy. Ilaya, Bugasong, Antique

PANDAN
Rodillon Building. Brgy. Dionela, Pandan, Antique

TOBIAS FORNIER
Rizal St., Brgy. Poblacion Sur, Tobias Fornier, Antique

LAUA-AN
Poblacion, Laua-an, Antique

PROVINCE OF GUIMARAS

JORDAN
Brgy. San Miguel, Jordan, Guimaras

BUENAVISTA
Purok 4 New Poblacion, Buenavista, Guimaras

NUEVA VALENCIA
Poblacion, Nueva Valencia, Guimaras

LIFEBANK - A RURAL BANK

AUDITED FINANCIAL STATEMENTS

For the year ended 2022

LifeBank
A Rural Bank

HEAD OFFICE
LifeBank Bldg.,
Brgy. Duyan-Duyan, Sta. Barbara, Iloilo 5002
Tel. No.: +63 33 332-1436
+63 33 332-1456
Tel./Fax No.: +63 33 523-4506
Email address: lifebank@lifebankrb.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **LifeBank - A Rural Bank** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of **LifeBank - A Rural Bank** complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to Philippine Financial Reporting Standard and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the **LifeBank - A Rural Bank's** books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) **LifeBank - A Rural Bank** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

JOHN ALOYSIUS S. BERNAS
Chairman of the Board

ROSARIO B. PERLAS
President/Chief Executive Officer

RUTH T. JARANTILLA
Treasurer

Signed this **24**th day of **April** 2023

KPMG

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
LifeBank - A Rural Bank
Bypass Road, Brgy. Duyan-Duyan
Sta. Barbara, Iloilo

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LifeBank - A Rural Bank (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our 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.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause) BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)
R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas Circular No. 1074 and Bureau of Internal Revenue Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the Bank's basic financial statements taken as a whole. The supplementary information required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 30 and Bureau of Internal Revenue (BIR) Revenue Regulations 15-2010 in Note 31 to the Bank's basic financial statements is presented for purposes of filing with the BSP and the BIR, respectively, and is not a required part of the Bank's basic financial statements. Such supplementary information is the responsibility of the Bank's management. The supplementary information has been subjected to the auditing procedures applied in our audit of the Bank's basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Bank's basic financial statements taken as a whole.

R.G. MANABAT & CO.

FLORIZZA C. SIMANGAN
Partner
CPA License No. 0147917
BSP Accreditation No. 147917-BSP, Group B, valid for five (5) years covering the audit of 2021 to 2025 financial statements
SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years covering the audit of 2021 to 2025 financial statements
Tax Identification No. 429-267-284
BIR Accreditation No. 08-001987-150-2022
Issued January 27, 2022; valid until January 26, 2025
PTR No. MKT 9563847
Issued January 3, 2023 at Makati City

April 30, 2023
Makati City, Metro Manila

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Philippines 1209
Telephone +63 (2) 8885 7000
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Internet www.home.kpmg/ph
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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and Stockholders
LifeBank - A Rural Bank
Bypass Road, Brgy. Duyan-Duyan
Sta. Barbara, Iloilo

We have audited the accompanying financial statements of LifeBank - A Rural Bank (the Bank) as at and for the year ended December 31, 2022, on which we have rendered our report dated April 30, 2023.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, managers, members of the Board of Directors or principal stockholders of the Bank.

R.G. MANABAT & CO.

FLORIZZA C. SIMANGAN
Partner
CPA License No. 0147917
BSP Accreditation No. 147917-BSP, Group B, valid for five (5) years covering the audit of 2021 to 2025 financial statements
SEC Accreditation No. 147917-SEC, Group A, valid for five (5) years covering the audit of 2021 to 2025 financial statements
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R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

LIFEBANK - A RURAL BANK

FINANCIAL STATEMENTS
DECEMBER 31, 2022 and 2021

With Independent Auditors' Report

LIFEBANK - A RURAL BANK
STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2022	2021
ASSETS			
Cash and other cash items	4, 26	**P17,878,613**	P14,743,134
Due from Bangko Sentral ng Pilipinas	5, 25, 26	**16,623,419**	16,688,796
Due from other banks	6, 25, 26	**298,334,079**	424,071,081
Loans to customers - net	7, 25, 26	**421,911,502**	350,067,378
Noncurrent assets held-for-sale	10	**6,965,092**	-
Debt securities at amortized cost	8, 25, 26	**185,016,863**	118,828,135
Property and equipment - net	9	**46,938,781**	49,459,183
Investment properties - net	10	**232,422**	8,194,190
Right-of-use assets - net	17	**552,606**	1,571,896
Retirement asset - net	22	**3,629,004**	-
Deferred tax assets - net	24	**18,148,092**	24,444,029
Other assets - net	11, 26	**13,689,752**	10,822,203
Total Assets		**P1,029,920,225**	P1,018,890,025
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	12, 25, 26	**P628,073,856**	P647,114,527
Accounts payable	13, 25, 26	**50,026,155**	49,009,014
Income tax payable		**5,594,454**	1,653,851
Lease liabilities	17, 25	**354,882**	1,641,580
Retirement liability - net	22	**-**	13,878,936
Other liabilities	14, 25, 26	**12,290,838**	18,940,432
Total Liabilities		**696,340,185**	732,238,340
Equity			
Capital stock	15	**13,915,500**	13,915,500
Retained earnings	16		
Unappropriated		**163,588,758**	137,177,119
Appropriated		**152,474,719**	135,370,187
Employee benefits reserve		**3,601,063**	188,879
Total Equity		**333,580,040**	286,651,685
		P1,029,920,225	P1,018,890,025

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Years Ended December 31 2022	2021
INTEREST INCOME			
Loans to customers	7	**P265,633,367**	P233,660,165
Debt securities at amortized cost	8	**3,641,534**	3,110,612
Due from other banks	6	**562,531**	651,574
		269,837,432	237,422,351
INTEREST EXPENSE			
Deposit liabilities	12	**11,363,888**	13,886,706
Lease liabilities	17	**71,076**	123,704
		11,434,964	14,010,410
NET INTEREST INCOME		**258,402,468**	223,411,941
OTHER INCOME			
Service charges		**6,891,659**	1,263,334
Gain on sale of investment properties	10	**2,917,871**	-
Fees and commissions		**1,635,142**	1,199,560
Income from penalties		**863,204**	509,913
Identification card lamination		**271,699**	188,941
Membership fee		**227,380**	172,920
Recovery of previously written off accounts	7	**197,793**	151,368
Passbook and checkbook sale		**143,600**	125,060
Gain on sale of property and equipment	9	**-**	1,000
Miscellaneous income		**8,891,952**	-
		22,040,300	3,612,096
OTHER EXPENSES			
Compensation and other benefits	18	**126,428,898**	110,355,406
Travel and transportation	19	**26,358,329**	24,254,591
Taxes and licenses	20	**16,120,913**	16,558,377
Information technology	21	**9,546,761**	10,012,806
Rent	17	**7,567,950**	6,636,722
Communication, light and water		**6,014,231**	6,433,442
Depreciation	9, 17	**4,534,688**	6,780,369
Stationery and supplies		**3,913,770**	4,463,368
Impairment losses	25	**3,371,057**	19,468,208
Fuel and oil		**3,083,816**	2,519,085
Insurance		**2,557,774**	2,271,395
Security and janitorial services		**2,314,170**	1,868,850
Professional fees		**884,832**	584,652
Representation and entertainment		**567,815**	335,179
Legal		**3,037**	2,034
Repairs and maintenance		**-**	3,216,864
Supervision fees		**-**	148,160
Miscellaneous		**10,204,183**	8,420,987
		223,472,224	224,330,495

	Note	Years Ended December 31 2022	2021
INCOME BEFORE INCOME TAX EXPENSE		**P56,970,544**	P2,693,542
INCOME TAX EXPENSE	24	**13,454,373**	5,029,426
NET INCOME (LOSS)		**43,516,171**	(2,335,884)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Remeasurement gain on retirement liability	22	**4,549,579**	3,792,546
Deferred tax effect	24	**(1,137,395)**	(948,137)
		3,412,184	2,844,409
TOTAL COMPREHENSIVE INCOME		**P46,928,355**	P508,525

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31			
	Capital Stock (Note 15)	Retained Earnings (Note 16) Unappropriated	Appropriated	Employee Benefits Reserve	Total Equity
Balance at January 1, 2022	**P13,915,500**	**P137,177,119**	**P135,370,187**	**P188,879**	**P286,651,685**
Total Comprehensive Income					
Net income for the year	**-**	**43,516,171**	**-**	**-**	**43,516,171**
Other comprehensive income	**-**	**-**	**-**	**3,412,184**	**3,412,184**
	-	**43,516,171**	**-**	**3,412,184**	**46,928,355**
Appropriation for the year	**-**	**(17,104,532)**	**17,104,532**	**-**	**-**
Balance at December 31, 2022	**P13,915,500**	**P163,588,758**	**P152,474,719**	**P3,601,063**	**P333,580,040**
Balance at January 1, 2021	P13,915,500	P141,967,347	P132,915,843	(P2,655,530)	P286,143,160
Total Comprehensive Income					
Net loss for the year	-	(2,335,884)	-	-	(2,335,884)
Other comprehensive income	-	-	-	2,844,409	2,844,409
	-	(2,335,884)	-	2,844,409	508,525
Appropriation for the year	-	(2,454,344)	2,454,344	-	-
Balance at December 31, 2021	P13,915,500	P137,177,119	P135,370,187	P188,879	P286,651,685

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P56,970,544**	P2,693,542
Adjustments for:			
Interest expense	*12, 17*	**11,434,964**	14,010,410
Retirement costs	*18, 22*	**6,173,909**	3,739,893
Depreciation	*9, 17*	**4,534,689**	6,780,369
Impairment losses		**3,371,057**	19,468,208
Gain on sale of property and equipment	*9*	**-**	(1,000)
Gain on sale of investment properties	*10*	**(2,917,871)**	-
Interest income	*6, 7, 8*	**(269,837,432)**	(237,422,351)
		(190,270,140)	(190,730,929)
Changes in:			
Loans to customers		**(75,215,181)**	2,169,877
Other assets		**805,127**	239,066
Deposit liabilities		**(19,040,671)**	19,931,873
Accounts payable		**1,017,141**	(190,815)
Other liabilities		**(11,243,131)**	1,839,942
		(293,946,855)	(166,740,986)
Interest received		**265,945,956**	237,741,689
Income taxes paid		**(1,310,210)**	(1,580,244)
Benefits paid	*22*	**(5,253,334)**	(1,896,923)
Interest paid		**(9,886,445)**	(14,191,619)
Contributions to the retirement fund	*22*	**(13,878,936)**	-
Net cash (used in) provided by operating activities		**(58,329,824)**	53,331,917
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of debt securities at amortized cost		**37,289,734**	21,733,355
Proceeds from sales of investment properties	*10*	**3,914,547**	-
Changes in security deposits		**218,800**	(247,124)
Acquisitions of:			
Property and equipment	*9*	**(994,997)**	(2,995,663)
Debt securities at amortized cost		**(103,478,462)**	(27,581,299)
Net cash used in investing activities		**(63,050,378)**	(9,090,731)

Forward

	Note	Years Ended December 31 2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	*16*	**P -**	(P27,760)
Payment of lease liabilities		**(1,286,698)**	(1,787,393)
Total cash used in financing activities		**(1,286,698)**	(1,815,153)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(122,666,900)**	42,426,033
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**14,743,134**	17,521,158
Due from Bangko Sentral ng Pilipinas		**16,688,796**	17,207,826
Due from other banks		**424,071,081**	378,347,994
		455,503,011	413,076,978
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	*4, 25, 26*	**17,878,613**	14,743,134
Due from Bangko Sentral ng Pilipinas	*5, 25, 26*	**16,623,419**	16,688,796
Due from other banks	*6, 25, 26*	**298,334,079**	424,071,081
		P332,836,111	P455,503,011

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

LifeBank - A Rural Bank (the Bank) was registered with Philippine Securities and Exchange Commission (SEC) on March 10, 1970 principally to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary proper in connection with the said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The Bank is majority owned by Blue Fields Enterprises, Inc., Joseph Perlas, Vicente Perlas and Bernardita Perlas.

The registered address of the Bank's head office is at Bypass Road, Brgy. Duyan-Duyan, Sta. Barbara, Iloilo and its three (3) other branches are located at Roxas City, Iloilo City, and Maasin, Iloilo.

2. Basis of Preparation

Basis of Accounting
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). They were authorized for issue by the Bank's board of directors (BOD) on April 24, 2023.

The details of the Bank's significant accounting policies are included in Note 29.

Basis of Measurement
These financial statements have been prepared on the historical cost basis of accounting except for retirement liability which is measured at the present value of the defined benefit obligation (DBO) less fair value of plan asset (FVPA).

Presentation of Financial Statements
The Bank presents their statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the financial reporting date (current) and more than 12 months after the financial reporting date (noncurrent) is presented in Note 25.

Functional and Presentation Currency
These financial statements are presented in Philippine peso, which is the Bank's functional currency. All amounts have been rounded to the nearest Philippine peso, unless otherwise indicated.

3. Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

Determining the Lease Term for Lease Contracts with Renewal and Termination Options - The Bank as a Lessee

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

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

Assets Held-for-Sale versus Owner-occupied Properties versus Investment Properties

The Bank determines whether a property qualifies as an investment property based on whether the property generated cash flows largely independent from other assets held by the Bank. Owner-occupied property generates cash flows that are attributable not only to the property but also to other assets used for administrative purposes.

Properties held for uncertain future purposes are classified as investment properties.

A property qualifies as an asset held-for-sale when the management is committed to a plan to sell, when asset is available for immediate sale, when there is an active program to locate a buyer is initiated and the sale is highly probable within twelve (12) months.

Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

Estimating Incremental Borrowing Rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Provision for Expected Credit Losses of Financial Assets
The measurement of impairment losses under PFRS 9, *Financial Instruments*, across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- the Bank's internal credit grading model, which assigns the probability of defaults (PDs) to individual grades;

- the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

- the segmentation of financial assets when their ECL is assessed on a collective basis;

- development of ECL models, including the various formulas and the choice of inputs;

- determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs; and

- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Further details on the carrying amounts of financial assets are discussed in Notes 4, 5, 6, 7, 8 and 11.

Estimating Useful Lives of Property and Equipment and Investment Properties
The Bank estimates useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment, and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and investment properties would increase the recorded expenses and decrease the property and equipment and investment properties.

Further details on property and equipment and investment properties are disclosed in Notes 9 and 10, respectively.

Impairment of Nonfinancial Assets
The Bank assesses at each reporting date whether there is an indication that the carrying amount of nonfinancial assets may be impaired.
The factors that the Bank considers important which could trigger an impairment review include the following:

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

Based on management's assessment, the carrying amounts of the Bank's nonfinancial assets are not impaired as at the reporting date except for investment properties with allowance for impairment losses amounting to P0.10 million as at December 31, 2022 and 2021 and due from employees with allowance for impairment losses amounting to P0.56 million as at December 31, 2022 and 2021 (see Notes 10 and 11).

Further details on the carrying amounts of nonfinancial assets are disclosed in Notes 9, 10, 11 and 17.

Taxes
The Bank reviews its deferred tax assets at each reporting date and reduces it 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 assets to be utilized. The Bank's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

Further details on deferred tax assets are disclosed in Note 24.

Defined Benefit Plan
The present value of DBO depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining retirement cost include the discount rate, future salary rate increase and mortality rate. Any changes in these assumptions will impact the carrying amount of the retirement liability.

Further details on retirement liability are disclosed in Note 22.

Fair Value Measurement of Financial Instruments
If the fair value of financial instruments is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

The specific methods and assumptions used by the Bank in estimating the fair values of its financial instruments are disclosed in Note 25.

4. Cash and Other Cash Items

This account consists of:

	Note	2022	2021
Cash on hand and in vault		**P16,381,251**	P13,794,864
Checks		**1,497,362**	948,270
	25, 26	**P17,878,613**	P14,743,134

Cash on hand and in vault consist primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers.

Checks pertain to cash items (other than Philippine currency notes and coins on hand) such as checks drawn on other banks after the Bank's clearing cut-off time until the close of the regular banking hours.

5. Due from Bangko Sentral ng Pilipinas

Due from BSP amounting to P16.62 million and P16.69 million as at December 31, 2022 and 2021, respectively, represents deposit with BSP to meet the reserve requirement against deposit and deposit substitute liabilities in accordance with Section 252, *Composition of Reserves*, of the latest Manual of Regulations for Banks (MORB) (see Note 25).

In accordance with Sec. 251, *Accounts Subject to Reserves; Amounts Required*, of the latest MORB, the required reserve against savings and time deposits is 2% for rural banks in 2022 and 2021.

As at December 31, 2022 and 2021, the Bank is in compliance with such provision.

6. Due from Other Banks

Due from other banks amounting to P298.33 million and P424.07 million as at December 31, 2022 and 2021, respectively, represent deposits with other domestic banks (see Notes 25 and 26).

All accounts under due from other banks are classified as cash and cash equivalents for cash flow purposes since they are composed of savings and time deposits that can be withdrawn anytime. Savings deposits earn interest ranging from 0.125% to 0.5% and 0.05% to 0.75% in 2022 and 2021, respectively, while time deposits earn interest ranging from 0.50% to 0.75% in 2022 and 2021.

Interest income earned on due from other banks amounted to P0.56 million and P0.65 million in 2022 and 2021, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income.

7. Loans to Customers

Details of this account are as follows:

	Note	2022	2021
Microfinance		**P446,974,823**	P372,756,682
Commercial		**48,971,122**	48,749,495
Agricultural		**2,899,004**	2,841,758
	25	**498,844,949**	424,347,935
Unamortized interest and discounts		**(337,577)**	(543,882)
		498,507,372	423,804,053
Allowance for impairment losses:			
Microfinance		**(65,465,847)**	(61,735,772)
Commercial		**(9,974,436)**	(10,366,079)
Agricultural		**(1,155,587)**	(1,634,824)
	25	**(76,595,870)**	(73,736,675)
	25, 26	**P421,911,502**	P350,067,378

Interest income on loans to customers amounted to P265.63 million and P233.66 million in 2022 and 2021, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income.

Accrued interest receivable as at December 31, 2022 and 2021 amounted to P7.31 million and P3.42 million, respectively (see Note 11).

Reversal of provision for impairment loss amounted to P5.31 million as at December 31, 2021.

Recovery of previously written off accounts amounted to P0.20 million and P0.15 million as at December 31, 2022 and 2021.

8. Debt Securities at Amortized Cost

This account consists of:

	Note	2022	2021
Land Bank of the Philippines (LBP)			
10-year bonds		**P56,404,472**	P39,246,836
Philippine retail treasury bonds (RTBs):			
China Banking Corporation		**59,475,583**	33,962,292
Philippine National Bank		**25,997,045**	13,000,000
Bank of the Philippine Islands		**13,000,000**	13,000,000
EastWest Bank		**12,899,763**	7,619,007
Security Bank Corporation		**12,240,000**	7,000,000
Banco De Oro Unibank, Inc.		**5,000,000**	5,000,000
	25, 26	**P185,016,863**	P118,828,135

LBP 10-year bonds earn interest ranging from 0.51% to 0.65% and have various maturity dates from February 2024 to May 2031.

Philippine RTBs purchased from various domestic banks earn interest ranging from 2.63% to 6.25% and have various maturity dates from February 2023 to March 2028.

Interest income on debt securities at amortized cost amounted to P3.64 million and P3.11 million in 2022 and 2021, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income.

9. Property and Equipment

The movements in this account are as follows:

	As at December 31, 2022				
	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost					
Balance at beginning of year	P25,551,398	P35,865,069	P46,114,188	P13,156,434	P120,687,089
Additions	-	-	887,997	107,000	994,997
Disposal	-	-	(2,019,548)	-	(2,019,548)
Reclassification	-	13,263,434	-	(13,263,434)	-
Balance at end of year	25,551,398	49,128,503	44,982,637	-	119,662,538
Accumulated Depreciation					
Balance at beginning of year	-	25,916,597	45,311,309	-	71,227,906
Depreciation	-	2,240,092	1,275,307	-	3,515,399
Disposal	-	-	(2,019,548)	-	(2,019,548)
Balance at end of year	-	28,156,689	44,567,068	-	72,723,757
Carrying Amount	P25,551,398	P20,971,814	P415,569	P -	P46,938,781

	As at December 31, 2021				
	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost					
Balance at beginning of year	P26,451,398	P35,865,069	P44,773,125	P11,549,834	P118,639,426
Additions	-	-	1,389,063	1,606,600	2,995,663
Disposal	-	-	(48,000)	-	(48,000)
Transfer to investment property	(900,000)	-	-	-	(900,000)
Balance at end of year	25,551,398	35,865,069	46,114,188	13,156,434	120,687,089
Accumulated Depreciation					
Balance at beginning of year	-	23,006,386	43,277,111	-	66,283,497
Depreciation	-	2,910,211	2,063,198	-	4,973,409
Disposal	-	-	(29,000)	-	(29,000)
Balance at end of year	-	25,916,597	45,311,309	-	71,227,906
Carrying Amount	P25,551,398	P9,948,472	P802,879	P13,156,434	P49,459,183

Depreciation amounting to P3.52 million and P4.97 million in 2022 and 2021, respectively, is included as part of "Depreciation" in the statement of profit or loss and other comprehensive income.

During 2021, the Bank transferred a parcel of land amounting to P0.90 million to investment property as per advice by the Compliance Department pursuant to Section 109, *Bank Premises and Other Fixed Assets, of the MORB* (see Note 10).

On May 25, 2021, the Bank sold a transportation equipment with a carrying amount of P19,000 in payment of a payable amounting to P20,000. The gain of P1,000 is presented as "Gain on sale of property and equipment" in the statements of profit or loss and other comprehensive income.

The cost of fully depreciated property and equipment used by the Bank amounted to P42.15 million and P42.97 million as at December 31, 2022 and 2021, respectively.

There were no property and equipment pledged or mortgaged as security as at December 31, 2022 and 2021.

10. Investment Properties

Investment properties consist of parcels of land acquired in settlement of loans upon foreclosure. The movements in this account as at December 31 are as follows:

	2022	2021
Cost		
Balance at beginning of year	**P8,293,950**	P7,393,950
Transferred from property and equipment	**-**	900,000
Disposal	**(996,676)**	-
Transferred to noncurrent assets held-for-sale	**(6,965,092)**	-
Balance at end of year	**332,182**	8,293,950
Accumulated Impairment Loss		
Balance at beginning and end of year	**99,760**	99,760
Carrying Amount	**P232,422**	P8,194,190

In 2021, a parcel of land was transferred from property and equipment amounting to P0.90 million to investment properties. This pertains to a property that was foreclosed and was earmarked for future use as a new site for Iloilo City Branch. However, the management assessed that the plan for relocation will be put on hold due to the current unfavorable situation brought by the pandemic (see Note 9).

In 2022, a parcel of land was disposed by the Bank amounting to P1 million, with proceeds amounting to P3.91 million, and recognized a gain amounting to P2.92 million, is presented as "Gain on sale of investment properties" in the statements of profit or loss and other comprehensive income.

In 2022, the Bank transferred properties amounting to P6.97 million to noncurrent assets held-for-sale. As at December 31, 2022, the Bank committed to sell the noncurrent assets held-for-sale. Noncurrent assets held-for-sale are readily available for viewing and sale. Efforts to sell the properties have started and the sale is expected to be complete within a year from the reporting period.

The fair value of investment properties held as at December 31, 2022 amounted to P11.67 million. The fair value of investment property has been internally determined by reference to other similar transactions in the market. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The market value of the investment property was arrived at using the market data approach. In this approach, the value of the investment based on the sales and listing of comparable properties registered in the vicinity which is classified as Level 2 hierarchy.

11. Other Assets

This account consists of:

	Note	2022	2021
Accrued interest receivable	7, 25	**P7,314,199**	P3,422,723
Prepaid expenses		**1,729,040**	1,932,772
Security deposits	25	**1,256,739**	1,475,539
Sales contract receivable	25	**1,150,796**	1,742,498
Due from employees		**1,099,714**	1,032,389
Stationary and supplies on hand		**985,272**	1,804,247
Others	25	**787,467**	45,510
		14,323,227	11,455,678
Allowance for impairment losses on:			
Due from employees		**(563,685)**	(563,685)
Accrued interest receivable	25	**(69,790)**	(69,790)
		P13,689,752	P10,822,203

Accrued interest receivable pertains to the interest earned but not yet collected in relation to the loans extended by the Bank to its borrowers (see Note 7).

Prepaid expenses pertain to payments to Asalus Corporation for the 2023 Health Maintenance Organization New Enrollment with Intellicare for the insurance of the Bank's employees, and prepayments to real property taxes, Iloilo Electric Cooperative, Inc. deposit, Electronic Network Cash Tellers, Inc. deposit and Instafin Core Banking System for the subscription of messaging services.

Security deposits include amounts paid as security for the faithful performance of the terms of the lease which were refundable at the end of the lease term. These are carried at amortized cost as at December 31, 2022 and 2021.

Sales contract receivable pertains to investment properties acquired in settlement of loans that were subsequently sold on an installment basis whereby their titles are transferred to the buyers only upon full payment of the agreed selling price (see Note 10).

Due from employees are cash advances that are settled through expense liquidation within seven working days after return from trip or completion of a project.

Stationery and supplies on hand pertain to office supplies used by the Bank for its daily operations.

12. Deposit Liabilities

This account consists of:

	Note	2022	2021
Special savings deposits		**P321,927,754**	P337,269,739
Regular savings deposits		**306,129,557**	309,828,243
Time deposits		**16,545**	16,545
	25, 26	**P628,073,856**	P647,114,527

Savings deposits have an annual interest rate of 0.125% and 0.25% in 2022 and 2021 while time deposits have interest rates ranging from 0.50% to 2.00% and 0.75% to 2.75% in 2022 and 2021, respectively.

Interest expense on deposit liabilities amounted to P11.36 million and P13.89 million in 2022 and 2021, respectively, and is presented under "Interest expense" in the statement of profit or loss and other comprehensive income.

13. Accounts Payable

Accounts payable primarily pertains to the Bank's payable to Country Bankers Life Insurance Corporation and Pioneer Life Insurance, Inc. for the insurance premiums of its borrowers (see Note 26).

14. Other Liabilities

This account consists of:

	Note	2022	2021
Cash dividends payable	*23, 25*	**P3,284,679**	P3,284,679
Statutory payables		**3,210,277**	2,495,313
Accrued expenses	*25*	**3,093,988**	11,627,787
Accrued interest payable	*25*	**2,701,036**	1,152,517
Miscellaneous	*25*	**858**	380,136
		P12,290,838	P18,940,432

Cash dividends payable are dividends that the Bank's BOD has declared to be payable to its shareholders.

Statutory payables consist of Social Security System (SSS), Philippine Health Insurance Corporation (PHIC) and Home Development Mutual Fund (HDMF) contributions of employees to different government agencies withheld by the Bank through salary deductions.

Accrued expenses consist mainly of accruals for employee benefits, repairs and maintenance, professional fees and utilities.

Accrued interest payable pertains to the interest incurred but not yet paid in relation to the deposits of the Bank's customers.

Miscellaneous primarily pertains to liability for the purchase of office supplies from various suppliers.

15. Capital Stock

This account consists of:

	2022		2021	
	Number of Stocks	**Amount**	Number of Stocks	Amount
Authorized Capital Stock				
P100 par value per common stock	**140,000**	**P14,000,000**	140,000	P14,000,000
Outstanding, Issued and Paid				
Balance at beginning and end of year	**139,155**	**P13,915,500**	139,155	P13,915,500

The holders of common stocks are entitled to receive dividends as and when declared by the Bank. All common stocks carry one (1) vote per stock without restrictions.

16. Retained Earnings

Dividend Declarations
On January 7, 2020, the BOD declared 40% cash dividends equivalent to P5.57 million or P40 per stock on common stocks for stockholders on record at January 7, 2020.

On January 12, 2019, the BOD declared 34% cash dividends equivalent to P4.73 million or P34 per stock on common stocks for stockholders on record at January 21, 2019.

Total cash dividends paid as at December 31, 2021 amounted to P0.03 million. No cash dividends paid as at December 31, 2022.

Appropriation of Retained Earnings
The Bank has retained earnings in excess of one hundred percent (100%) of paid-in capital stock as at December 31, 2022 and 2021. The SEC in its Financial Reporting Bulletin 15 reiterated the provisions of Section 42, *Power to Declare Dividends,* of the Revised Corporation Code which states that stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital stock, except:

- when justified by definite corporate expansion projects or programs approved by the BOD; or
- when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or
- when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. The foregoing provisions indicate that the retention for expansion projects must be definite and approved by the BOD.

On a meeting dated November 24, 2021, the BOD approved the extension of the strategic initiatives of the 2020 appropriated retained earnings amounting to P132.92 million through the year 2022 and the appropriation of P2.45 million from the Bank's unappropriated retained earnings as an additional capital reserve to buffer the effect of the Bank's capital adequacy as a result of the increasing incidence of pandemic, calamities and disasters.

On December 10, 2022, the BOD approved the appropriation of P17.10 million from the Bank's unappropriated retained earnings following the Bank's strategic initiatives of opening Bank branches in Kalibo, Aklan and San Jose, Antique and establishment of eight branch-lite units in 2023.

In addition, under BSP Circular No. 1151, *Amendments to the Minimum Capitalization of Rural Banks*, of the latest MORB, the Bank is required to maintain a capital of P50 million and under Appendix to Section 127, *Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks*, of the latest MORB, the Bank is required to maintain net worth of P99.67 million which is 10% of risk-weighted assets, thus, are considered as mandatory reserves. Given this regulatory reserve requirement, the Bank's retention of excess retained earnings is allowed pursuant to Section 42 of the Revised Corporation Code.

17. Leases

The Bank as a Lessee
The Bank leases several office spaces for its branch and unit operations. The lease contracts cover a period of 1 to ten (10) years and renewable under certain terms and conditions as agreed by both parties.

Right-of-Use Assets
The carrying amount of right-of-use assets recognized and movements during the year are as follows:

	2022	2021
Cost		
Balance at beginning of year	**P4,404,110**	P3,571,147
Additions	-	1,841,463
Write-offs	**(661,386)**	(1,008,500)
Balance at end of year	**3,742,724**	4,404,110
Accumulated Depreciation		
Balance at beginning of year	**2,832,214**	2,033,754
Depreciation	**1,019,290**	1,806,960
Write-offs	**(661,386)**	(1,008,500)
Balance at the end of year	**3,190,118**	2,832,214
Carrying Amount	**P552,606**	P1,571,896

Depreciation amounting to P1.02 million and P1.81 million in 2022 and 2021, respectively, is presented as part of "Depreciation" in the statement of profit or loss and other comprehensive income.

Write-offs pertain to terminated lease contracts in 2022 and 2021.

Lease Liabilities
The carrying amount of lease liabilities and the movements during the year are as follows:

	Note	2022	2021
Balance at beginning of year		**P1,641,580**	P1,587,510
Additions		**-**	1,701,463
Accretion of interest		**71,076**	123,704
Payments		**(1,357,774)**	(1,771,097)
Balance at end of year	*25*	**P354,882**	P1,641,580

	2022	2021
Current	**P299,554**	P649,067
Noncurrent	**55,328**	992,513
	P354,882	P1,641,580

For the years ended December 31, 2022 and 2021, the amount recognized in the statement of profit or loss and total comprehensive income for leases under PFRS 16, is as follows:

	2022	2021
Interest on lease liability	**P71,076**	P123,704

Further, the amount recognized in statement of cash flows is as follows:

	2022	2021
Total cash outflow for leases	**P8,925,724**	P8,407,819

The rent expense associated with short-term leases in 2022 and 2021 amounted to P7.57 million and P6.64 million, respectively, and is presented under "Rent" in the statement of profit or loss and other comprehensive income.

18. Compensation and Other Benefits

	Note	2022	2021
Salaries and wages		**P86,559,514**	P81,358,106
Other benefits		**20,861,138**	14,956,594
Government contributions		**10,287,625**	9,536,167
Retirement costs	22	**6,173,909**	3,739,893
Directors' fee		**2,546,712**	764,646
		P126,428,898	P110,355,406

Salaries and wages primarily pertain to gross remuneration of officers and employees for regular and overtime services rendered.

Other benefits refer to the expenses for any good, service or other benefit furnished or granted by the Bank to its officers, in cash or in kind, in addition to basic salaries, such as, but not limited, to housing, life or health insurance as well as expenses for allowances and other fringe benefits granted to employees in accordance with management policy such as bonuses, profit shared, including those for special studies or seminars but excluding medical, dental and hospitalization benefits.

Government contributions include contributions to SSS, PHIC and HDMF

19. Travel and Transportation

This account pertains to the expenses incurred for the official travel of directors, officers and employees, including fares, and hotel accommodations. This account also includes expenses incurred by employees for fuel and minor repairs in using their own vehicles during fieldwork. Travel and transportation amounted to P26.36 million and P24.25 million for the years ended December 31, 2022 and 2021, respectively.

20. Taxes and Licenses

This account refers to the expenses incurred for taxes and licenses other than income tax, such as gross receipts tax, documentary stamps, license and permit fees, and real estate taxes.

21. Information Technology

This refers to subscription fees paid to Oradian, the Bank's system provider, for the Instafin Core Banking System, computer repairs and purchases of computer supplies and peripherals.

22. Retirement Liability

The Bank has a funded, non-contributory defined benefit retirement plan covering all regular employees which provide retirement benefits equivalent to 22.50 days of the current basic monthly salary for every year of continuous service upon retirement or death.

The Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under R.A. No. 7641, *Retirement Pay Law*, as amended.

The retirement plan is exposed to both financial and demographic risks. Risks associated to the retirement plan are as follows:

- Liquidity risk - The inability to meet benefit obligation payout when due.

- Interest rate risk - The present value of DBO is relatively sensitive and inversely related to the discount rate. In particular, if the discount rate, which is referenced to government bonds, decreases then, the DBO increases.

- Salary risk - The present value of DBO is relatively sensitive and directly related to future salary increases. In particular, if the actual salary increases in the future are higher than expected then the DBO and benefits are higher as well.

- Persistency risk - The present value of DBO is relatively sensitive and inversely related to the turnover rates. In particular, lower turnover rates, which means employees persist or stay with the Bank longer, correspond to higher DBO and benefit payouts.

The present value of the DBO and the related retirement cost of the Bank were actuarially measured using the projected unit credit method. The most recent actuarial valuation was carried out at December 31, 2022 by a qualified independent actuary.

The following table below shows the reconciliation from the opening to the closing balances for retirement liability and its components:

	DBO		FVPA		Net Defined Benefit Liability (Asset)	
	2022	2021	**2022**	2021	**2022**	2021
Balance at January 1	**P13,678,936**	P15,828,512	**P -**	P -	**P13,678,936**	P15,828,512
Included in Profit or Loss						
Current service cost	**1,466,083**	1,593,972	**-**	-	**1,466,083**	1,593,972
Interest cost (income)	**4,707,826**	668,190	**-**	-	**4,707,826**	668,190
Settlement gain	**-**	1,477,731		-	**-**	1,477,731
	6,173,909	3,739,893	**-**	-	**6,173,909**	3,739,893
Included in Other Comprehensive Income (OCI)						
Remeasurements (gains) losses:						
Actuarial (gains) losses arising from:						
Experience adjustment	**1,225,230**	(4,052,634)	**(7,178)**	-	**1,232,408**	(4,052,634)
Transferred out liability		(84,898)	**-**	-	**-**	(84,898)
Financial assumption	**(5,761,987)**	344,984	**-**	-	**(5,761,987)**	344,984
	(4,586,757)	(3,792,548)	**(7,178)**	-	**(4,549,579)**	(3,792,548)
Others						
Benefits paid	**(5,253,334)**	(1,896,923)	**-**	-	**(5,253,334)**	(1,896,923)
Contributions paid by the employer	**-**	-	**13,678,936**	-	**(13,678,936)**	
	-	-	**-**	-	**(19,132,270)**	(1,896,923)
Balance at December 31	**P10,242,754**	P13,678,936	**P13,671,758**	P -	**(P3,629,004)**	P13,678,936

The retirement costs amounting to P6.17 million and P3.74 million in 2022 and 2021, respectively, are presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive income (see Note 18).

The principal actuarial assumptions used to determine the present value of DBO and retirement costs as at and for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Discount rate	**7.50%**	5.10%
Future salary rate increases	**2.00%**	2.00%
Mortality rate	**2017 PICM Table**	2017 PICM Table

The weighted average duration of the DBO is 17.50 years and 17.60 years as at December 31, 2022 and 2021, respectively.

The Bank's plan asset amounting to P13.87 million as at December 31, 2022 consists of cash and cash equivalents.

The Bank does not expect to contribute to the Plan in 2023.

Maturity analysis of the benefit payments:

	2022				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1 - 5 Years**	**More than 5 Years**
Retirement liability	**P10,242,754**	**P179,339,141**	**P654,502**	**P441,320**	**P178,243,319**

	2021				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	More than 5 Years
Retirement liability	P13,878,936	P158,055,828	P379,561	P415,568	P157,260,699

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below.

	Retirement Liability	
2022	**Increase**	**Decrease**
Discount rate (1% movement)	**(P8,596,490)**	**P12,285,341**
Future salary growth (1% movement)	**12,385,201**	**(8,502,022)**
Future mortality (1% movement)	**(9,557,896)**	**11,000,243**

	Retirement Liability	
2021	Increase	Decrease
Discount rate (1% movement)	(P11,472,057)	P16,909,064
Future salary growth (1% movement)	16,981,821	(11,498,113)
Future mortality (1% movement)	(12,837,927)	15,042,206

Each sensitivity run is based on a change in a sole actuarial assumption while holding all other assumptions constant. However, the sensitivity runs may not be representative of the actual change in the DBO as it is unlikely that a change in assumption would occur in isolation as the assumptions may be correlated.

Furthermore, DBO figures in this sensitivity runs have been calculated using the projected unit credit method, the same method used in the calculation of DBO.

Funding Policy
The BOD is responsible for the administration of the plan assets and for the definition of the investment strategy. The BOD reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Bank's ALM objective is to match maturities of the plan assets to the retirement liability as they fall due. The Bank monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement liability.

Asset-liability Matching

The Bank has no specific matching strategy between the plan assets and the plan liabilities.

23. Related Parties

Identity of the Related Parties

The Bank, in the normal course of business, has significant transactions with members of the BOD, officers, stockholders and related interests (DOSRI), Lifebank Microfinance Foundation, Inc. (LMFI), an entity under common control, and key management personnel (KMP), consisting mainly of the following:

Category/Transaction	Year	Note	Amount of the Transaction	Deposit Liabilities (Note 12)	Dividends Payable (Note 14)	Right-of-Use Assets (Note 17)	Lease Liabilities (Note 17)	Nature, Terms and Conditions
DOSRI								
Deposit liabilities	**2022**	1a	**P46,002,987**	**P119,301,583**	**P -**	**P -**	**P -**	**Interest-bearing; due and demandable; unsecured**
	2021	1a	8,686,011	73,298,006	-	-	-	Interest-bearing; due and demandable; unsecured
Rentals	**2022**	1b	**85,200**	**-**	**-**	**48,289**	**65,329**	**-**
	2021	1b	85,200	-	-	120,723	133,613	-
Dividends paid	**2022**	1c	**-**	**-**	**3,284,679**	**-**	**-**	**-**
	2021	1c	27,760	-	3,284,679	-	-	-
LMFI								
Deposit liabilities	**2022**	2a	**13,965,675**	**94,643,663**	**-**	**-**	**-**	**Interest-bearing; due and demandable; unsecured**
	2021	2a	(1,208,689)	80,677,978	-	-	-	Interest-bearing; due and demandable; unsecured
Rentals	**2022**	2b	**467,693**	**-**	**-**	**93,242**	**88,598**	**-**
	2021	2b	275,897	-	-	540,217	518,395	-
KMP								
Compensation	**2022**	3a	**10,123,202**	**-**	**-**	**-**	**-**	**-**
	2021	3a	10,400,092	-	-	-	-	-
TOTAL	**2022**			**P213,946,246**	**P3,284,679**	**P141,531**	**P153,297**	
TOTAL	2021			P153,976,584	P3,284,679	P660,940	P652,008	

1. DOSRI

   a) The Bank's DOSRI has several deposit accounts with the Bank which bear interest ranging from 0.50% to 2.00% and 0.75% to 2.75% per annum in 2022 and 2021, respectively. Deposit liabilities amounted to P119.30 million and P73.30 million as at December 31, 2022 and 2021, respectively (see Note 12).

   b) On August 1, 2018, the Bank entered into a 5-year lease contract with a director to lease an office space for its Maasin Branch. The right-of-use asset recognized amounted to P0.05 million and P0.12 million as at December 31, 2022 and 2021, respectively. Lease liability recognized amounted to P0.06 million and P0.13 million as at December 31, 2022 and 2021, respectively (see Note 17).

   c) Cash dividends payable are dividends that the Bank's BOD has declared to be payable to its shareholders. Dividends payable amounted to P3.28 million as at December 31, 2022 and 2021, respectively (see Note 14).

2. LifeBank Microfinance Foundation, Inc. (LMFI)

   a) LMFI has several deposit accounts with the Bank which bear interest ranging from 0.50% to 2.00% and 0.75% to 2.75% in 2022 and 2021, respectively. Deposit liabilities amounted to P94.64 million and P80.68 million as at December 31, 2022 and 2021, respectively (see Note 12).

b) On May 1, 2011, the Bank entered into a 10-year lease contract with LMFI to lease office space for its Iloilo City Branch. The contract was renewed on May 1, 2021 for a 2-year term. The right-of-use asset amounted to P0.09 million and P0.54 million as at December 31, 2022 and 2021, respectively. Lease liability amounted to P0.10 million and P0.52 million as at December 31, 2022 and 2021, respectively (see Note 17).

3. KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank's KMP consist of executive officers, bank managers, and an operations manager.

a) The compensation of Bank's KMP is composed of the following:

	2022	2021
Short-term employee benefits	**P9,809,909**	P9,915,000
Post-employment benefits	**126,075**	448,957
Director's fee	**187,218**	102,135
	P10,123,202	P10,466,092

This is presented as part of "Compensation and other benefits" account in the statement of profit or loss and other comprehensive income (see Note 18).

All outstanding related party balance will be settled in cash.

24. Income Tax

The details of the Bank's income tax expense are as follows:

	2022	2021
Recognized in Profit or Loss		
Income tax:		
Current	**P8,295,831**	P3,619,624
Effect on change in tax rate	-	(385,529)
	8,295,831	3,234,095
Deferred tax:		
Current	**5,158,542**	5,970,789
Effect on change in tax rate	-	(4,175,458)
	5,158,542	1,795,331
	P13,454,373	P5,029,426
Recognized in OCI		
Current	**(P1,137,395)**	(P874,424)
Effect on change in tax rate	-	(73,713)
	(P1,137,395)	(P948,137)

The reconciliation of the income tax expense computed at the statutory tax rate to the income tax expense recognized in the statement of profit or loss and other comprehensive income at December 31 is as follows:

	2022	2021
Income before income tax expense	**P56,970,544**	P2,693,542
Tax at statutory tax rate of 25% in 2022 and 2021	**P14,242,636**	P673,386
Adjustments for tax effects of:		
Interest expense limitation	**262,753**	235,137
Tax effect due to change in tax rate in 2020	**-**	4,634,700
Derecognition of deferred tax assets (DTA) of net operating loss carryover (NOLCO)	**-**	1,919,942
Derecognition of DTA of minimum corporate income tax (MCIT)	**-**	1,156,587
Nondeductible expense	**-**	426,750
Application of MCIT	**-**	(1,156,587)
Application of NOLCO	**-**	(1,919,942)
Interest income subject to final tax	**(1,051,016)**	(940,547)
Income tax expense	**P13,454,373**	P5,029,426

The movements of deferred tax assets (liabilities) are as follows:

2022	Balance January 1	Recognized in Profit or Loss	Recognized in OCI	Balance December 31
Deferred Tax Assets				
Allowance for impairment losses:				
Loans to customers	P18,434,169	P714,799	P -	P19,148,968
Other assets	158,369	-	-	158,369
Investment properties	24,940	-	-	24,940
Lease liability	410,393	(321,674)	-	88,719
Retirement liability	3,469,734	(3,239,590)	(1,137,395)	(907,251)
Accrued expenses	2,906,947	(1,981,160)	-	925,787
NOLCO	-	-	-	-
MCIT	-	-	-	-
Accrued interest payable	288,130	387,130	-	675,260
	25,692,682	(4,440,495)	(1,137,395)	20,114,792
Deferred Tax Liabilities				
Right-of-use assets	(392,973)	254,822	-	(138,151)
Accrued interest receivable	(855,680)	(972,869)	-	(1,828,549)
	(1,248,653)	(718,047)	-	(1,966,700)
	P24,444,029	(P5,158,542)	(P1,137,395)	P18,148,092

2021	Balance January 1	Recognized in Profit or Loss	Recognized in OCI	Balance December 31
Deferred Tax Assets				
Allowance for impairment losses:				
Loans to customers	P16,280,540	P2,153,629	P -	P18,434,169
Other assets	190,043	(31,674)	-	158,369
Investment properties	29,928	(4,988)	-	24,940
Lease liability	476,253	(65,860)	-	410,393
Retirement liability	4,748,554	(330,683)	(948,137)	3,469,734
Accrued expenses	2,829,921	77,026	-	2,906,947
NOLCO	2,303,930	(2,303,930)	-	-
MCIT	1,542,116	(1,542,116)	-	-
Accrued interest payable	400,118	(111,988)	-	288,130
	28,801,403	(2,160,584)	(948,137)	25,692,682
Deferred Tax Liabilities				
Right-of-use assets	(491,288)	98,315	-	(392,973)
Accrued interest receivable	(1,122,618)	266,938	-	(855,680)
	(1,613,906)	365,253	-	(1,248,653)
	P27,187,497	(P1,795,331)	(P948,137)	P24,444,029

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (the CREATE Act), with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Bank:

a) Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.

b) MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.

c) The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the BIR issued the following implementing RR that are effective immediately upon publication:

- BIR RR No. 2-2021, *Amending Certain Provisions of RR No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the CREATE Act, to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;*

- BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of the CREATE Act, Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;*

- BIR RR No. 4-2021, *Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under the CREATE Act Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by RR No. 16-2005 (Consolidated VAT Regulations of 2005), As Amended*; and

- BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to CREATE Act, Which Further Amended the National Revenue Code of 1997.*

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Act. The corporate income tax of the Company will be lowered from 30% to 25% on which the Company would qualify, effective July 1, 2020.

25. Financial Instruments

Exposure to Credit Risk
The carrying amounts of financial assets represent the maximum credit exposure. An analysis of concentration of credit risk by sector on due from BSP, due from other banks, loans to customers, debt securities at amortized cost and other assets as at December 31, 2022 and 2021 is shown below:

Concentration by Sector	*Note*	2022	2021
Banks:			
Due from BSP	*5*	**P16,623,419**	P16,688,796
Due from other banks	*6*	**298,334,079**	424,071,081
Debt securities at amortized cost	*8*	**185,016,863**	118,828,135
		499,974,361	559,588,012
Retail:			
Loans to customers – net	*7*	**421,911,502**	350,067,378
Other assets - net*	*11*	**10,439,411**	6,616,480
		432,350,913	356,683,858
		P932,325,274	P916,271,870

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees.*

The summary of concentration of credit risk by sector on loans to customers as to industry is presented in Note 30 to the financial statements.

The maximum exposure to credit risk at the reporting dates are as follows:

	Note	2022	2021
Due from BSP	*5*	**P16,623,419**	P16,688,796
Due from other banks	*6*	**298,334,079**	424,071,081
Loans to customers - net	*7*	**421,911,502**	350,067,378
Debt securities at amortized cost	*8*	**185,016,863**	118,828,135
Other assets - net*	*11*	**10,439,411**	6,616,480
		P932,325,274	P916,271,870

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees.*

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is monitored and managed based on the credit standing and history. Credit exposures are classified into three stages of credit impairment with corresponding time horizons in measuring ECL:

- Stage 1 - Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk - 12 months ECL;

- Stage 2 - Credit exposures that are considered "under-performing" or not yet "non-performing" but with significant increase in credit risk since initial recognition - Lifetime ECL; and

- Stage 3 - Credit exposures with objective evidence of impairment, thus, considered as "non-performing" - Lifetime ECL.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High grade represents bank deposits, loans, advances or investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation. These also include deposits with reputable institutions from where the deposits may be withdrawn and recovered with certainty.

- Standard grade are neither past due nor impaired loans and with partially secured loan status. The standard grade category includes loans for which collections are probable due to the reputation and the financial ability to pay of the counterparty.

- Substandard grade includes loans which have risk of default higher than normal. Substandard grade loans are those where the counterparties are expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower.

The credit quality by class of financial assets (gross of allowance for impairment losses and unamortized interest and discounts) of the Bank as at December 31, 2022 and 2021 is as follows:

	December 31, 2022			
	ECL			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	P16,623,419	P -	P -	P16,623,419
Due from other banks:				
High grade	298,334,079	-	-	298,334,079
Loans to customers:				
High grade	26,899,552	-	-	-
Standard grade	4,015,165	-	-	-
Substandard grade	394,298,719	-	-	-
Past due but not impaired	-	62,277,876	-	62,277,876
Past due and impaired	-	-	11,353,637	11,353,637
	425,213,436	62,277,876	11,353,637	498,844,949
Debt securities at amortized cost:				
High grade	185,016,863	-	-	185,016,863
Accrued interest receivable:				
High grade	7,314,199	-	-	7,314,199
Sales contract receivable:				
High grade	1,150,796	-	-	1,150,796
Security deposits:				
High grade	1,256,739	-	-	1,256,739
Others:				
High grade	787,467	-	-	787,467
	P935,696,998	P62,277,876	P11,353,637	1,009,328,511

	December 31, 2021			
	ECL			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	P16,688,796	P -	P -	P16,688,796
Due from other banks:				
High grade	424,071,081	-	-	424,071,081
Loans to customers:				
High grade	25,557,373	-	-	25,557,373
Standard grade	3,559,979	-	-	3,559,979
Substandard grade	313,865,700	-	-	313,865,700
Past due but not impaired	-	73,561,309	-	73,561,309
Past due and impaired	-	-	7,803,574	7,803,574
	342,983,052	73,561,309	7,803,574	424,347,935
Debt securities at amortized cost:				
High grade	118,828,135	-	-	118,828,135
Accrued interest receivable:				
High grade	3,422,723	-	-	3,422,723
Sales contract receivable:				
High grade	1,742,498	-	-	1,742,498
Security deposits:				
High grade	1,475,539	-	-	1,475,539
Others:				
High grade	45,510	-	-	45,510
	P909,257,334	P73,561,309	P7,803,574	P990,622,217

The movements in gross carrying amount of loans to customers between stages are as follows:

	December 31, 2022			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross Carrying Amount at January 1, 2022	**P342,983,052**	**P73,561,309**	**P7,803,574**	**P424,347,935**
New financial assets originated or purchased	**1,368,692,960**	**-**	**-**	**1,368,692,960**
Transfers:				
Transfer to stage 1	**198,846**	**(46,432)**	**(152,414)**	**-**
Transfer to stage 2	**(3,154,988)**	**3,205,376**	**(50,388)**	**-**
Transfer to stage 3	**(15,965,423)**	**(356,812)**	**16,322,235**	**-**
Financial assets derecognized	**(1,267,541,011)**	**(14,085,565)**	**(12,569,370)**	**(1,294,195,946)**
Gross Carrying Amount at December 31, 2022	**P425,213,436**	**P62,277,876**	**P11,353,637**	**P498,844,949**

	December 31, 2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross Carrying Amount at January 1, 2021	P325,193,479	P89,644,626	P11,750,652	P426,588,757
New financial assets originated or purchased	1,167,987,394	-	-	1,167,987,394
Transfers:				
Transfer to stage 1	178,694	(38,221)	(140,473)	-
Transfer to stage 2	(4,164,377)	4,164,377	-	-
Transfer to stage 3	(13,390,988)	(851,831)	14,242,819	-
Financial assets derecognized	(1,132,821,150)	(19,357,642)	(18,049,424)	(1,170,228,216)
Gross Carrying Amount at December 31, 2021	P342,983,052	P73,561,309	P7,803,574	P424,347,935

The movements of the allowance for impairment losses between stages are as follows:

	December 31, 2022			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Allowance for Impairment Losses at January 1, 2022	**P62,256,998**	**P3,714,678**	**P7,764,999**	**P73,736,675**
Movements with Profit or Loss Impact				
New financial assets originated or purchased	**275,872,879**	-	-	**275,872,879**
Transfers:		-	-	-
Transfer to stage 1	**43,786**	**(9,441)**	**(34,345)**	-
Transfer to stage 2	**(863,156)**	**876,941**	**(13,785)**	-
Transfer to stage 3	**(2,698,003)**	**(248,906)**	**2,946,909**	-
Financial assets derecognized	**(268,324,640)**	**(2,399,501)**	**(2,289,543)**	**(273,013,684)**
Total Net Profit or Loss Charge	**4,030,866**	**(1,780,907)**	**609,236**	**2,859,195**
Allowance for Impairment Losses at December 31, 2022	**P66,287,864**	**P1,933,771**	**P8,374,235**	**P76,595,870**

	December 31, 2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for Impairment Losses at January 1, 2021	P37,805,717	P4,770,184	P11,692,566	P54,268,467
Movements with Profit or Loss Impact				
New financial assets originated or purchased	202,764,710	-	-	202,764,710
Transfers:				
Transfer to stage 1	31,022	(6,635)	(24,387)	-
Transfer to stage 2	(722,943)	722,943	-	-
Transfer to stage 3	(2,324,700)	(147,879)	2,472,579	-
Financial assets derecognized	(175,296,808)	(1,623,935)	(6,375,759)	(183,296,502)
Total Net Profit or Loss Charge	24,451,281	(1,055,506)	(3,927,567)	19,468,208
Allowance for Impairment Losses at December 31, 2021	P62,256,998	P3,714,678	P7,764,999	P73,736,675

The movements in the allowance for impairment losses in respect of loans and advances to customers during the year are as follows:

	Note	**2022**	2021
Balance at beginning of year		**P73,736,675**	P54,268,467
Provision for the year		**3,371,057**	19,468,208
Accounts written off		**(511,862)**	-
Balance at end of year	7	**P76,595,870**	P73,736,675

Impairment losses on loans to customers amounting to P3.37 million and P19.47 million in 2022 and 2021, respectively, are presented as "Impairment losses" in the statement of profit or loss and other comprehensive income.

Aging details of loans to customers are as follows:

	2022		2021	
	Gross	**Impairment**	Gross	Impairment
Not past due	**P425,213,436**	**P8,651,866**	P340,014,179	P7,248,023
Past due 1 - 30 days	**3,250,142**	**66,131**	9,261,118	197,418
Past due 31 - 90 days	**864,723**	**17,595**	4,730,855	100,847
Past due 91 - 180 days	**1,690,772**	**34,402**	6,984,336	6,565,276
More than 180 days	**67,825,876**	**67,825,876**	63,357,447	59,625,111
	P498,844,949	**P76,595,870**	P424,347,935	P73,736,675

On March 25, 2020, R.A. No. 11469, *Bayanihan to Heal as One Act* (Bayanihan 1 Act) was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, R.A. No. 11494, *Bayanihan to Recover as One Act* (Bayanihan 2 Act) was enacted. Under Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees and other charges and thereby extending the maturity of the said loans.

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. The impact of the loan modification including the subsequent accretion of the modified loans is not significant to the Bank's financial statements.

Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. As at December 31, 2022 and 2021, the Bank has not modified terms and conditions in loans to customers.

<u>Liquidity Risk</u>
Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations due to shortage of funds.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by the BOD.

Exposure to Liquidity Risk

The table below summarizes the maturity profile of the Bank's financial assets and liabilities (in thousands) based on contractual repayment arrangements:

December 31, 2022	*Note*	Total Carrying Amount	Contractual Undiscounted Payments: Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets							
Cash and other cash items	*4*	**P17,879**	**P17,879**	**P -**	**P -**	**P -**	**P17,879**
Due from BSP	*5*	**16,623**	**16,623**	**-**	**-**	**-**	**16,623**
Due from other banks	*6*	**298,334**	**298,334**	**-**	**-**	**-**	**298,334**
Loans to customers - net	*7*	**421,912**	**425,213**	**4,115**	**1,691**	**67,826**	**498,845**
Debt securities at amortized cost	*8*	**185,017**	**183**	**21,335**	**31,479**	**132,020**	**185,017**
Other assets - net*	*11*	**10,439**	**8,191**	**992**	**1,026**	**2,296**	**10,505**
		950,204	**764,423**	**26,442**	**34,196**	**202,144**	**1,027,207**
Liabilities							
Deposit liabilities	*12*	**628,074**	**32,797**	**78,152**	**239,945**	**277,179**	**628,074**
Accounts payable	*13*	**50,026**	**50,026**	**-**	**-**	**-**	**50,026**
Lease liabilities**	*17*	**356**	**60**	**267**	**128**	**228**	**683**
Other liabilities***	*14*	**9,081**	**6,811**	**2,270**			**9,081**
		687,536	**89,694**	**80,689**	**240,073**	**277,407**	**687,864**
Net Liquidity Gap		**P262,668**	**P674,729**	**(P54,247)**	**(P205,875)**	**(P75,263)**	**P339,343**

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***Including future interest payments*
****Excluding statutory payables*

December 31, 2021	*Note*	Total Carrying Amount	Contractual Undiscounted Payments: Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets							
Cash and other cash items	*4*	P14,742	P14,743	P -	P -	P -	P14,743
Due from BSP	*5*	16,689	16,689	-	-	-	16,689
Due from other banks	*6*	424,071	372,571	51,500	-	-	424,071
Loans to customers - net	*7*	350,067	65,313	255,679	6,897	34,765	362,654
Debt securities at amortized cost	*8*	118,828	396	15,327	15,092	88,014	118,828
Other assets - net*	*11*	5,616	3,483	422	507	2,274	6,686
		931,014	473,194	322,928	22,496	125,053	943,671
Liabilities							
Deposit liabilities	*12*	647,115	409,829	237,270	17	-	647,115
Accounts payable	*13*	49,009	49,009	-	-	-	49,009
Lease liabilities**	*17*	1,642	118	327	403	858	1,706
Other liabilities***	*14*	15,445	12,780	3,665			15,445
		714,211	471,735	241,462	420	858	714,275
Net Liquidity Gap		P216,803	P1,459	P81,466	P22,076	P124,395	P229,396

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***Including future interest payments*
****Excluding statutory payables*

Market Risk

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

Interest Rate Risk
At the reporting date, the interest rate profile of the Bank's interest-bearing financial instruments is as follows:

	Note	**2022**	2021
Fixed Rate Instruments			
Financial assets:			
Due from other banks	*6*	**P298,334,079**	P424,071,081
Loans to customers - net	*7*	**421,911,502**	350,067,378
Debt securities at amortized cost	*8*	**185,016,863**	118,828,135
		905,262,444	892,966,594
Financial liabilities:			
Deposit liabilities	*12*	**628,073,856**	647,114,527
Lease liabilities	*17*	**354,882**	1,641,580
		P276,833,706	P244,210,487

Effective interest rates for 2022 and 2021 are as follows:

	2022	2021
Assets		
Due from other banks	**0.125-0.75%**	0.05%-0.75%
Loans to customers - net	**6%-78.68%**	6%-78.68%
Debt securities at amortized cost	**0.51%-6.25%**	0.75%-6.25%
Liabilities		
Deposit liabilities	**0.50%-2.00%**	0.75%-2.75%
Lease liabilities	**6.87%**	6.87%

The financial instruments of the Bank have fixed interest rates and the management assessed that the Bank's exposure to changes in interest rate risk is immaterial.

26. Fair Value Measurement

Valuation Methodologies of Financial Instruments Not Measured at Fair Value
The methods and assumptions used by the Bank in estimating the fair values of the financial assets and financial liabilities are as follows:

Cash and Other Cash Items, Due from BSP, Due from Other Banks, and Other Financial Assets under "Other Assets" - Carrying amounts approximate fair values in view of the relatively short-term maturities.

Loans to Customers and Debt Securities at Amortized Cost - Carrying amounts approximates fair value as at reporting dates because these bear interest rates that approximate market rates.

Deposit Liabilities, Lease Liabilities, and Other Financial Liabilities under "Accounts Payable and Accrued Expenses" and "Other Liabilities" - Carrying amounts approximate fair values considering that these are due and demandable or with short-term maturities.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.

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

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

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

		December 31, 2022				
			Fair Value Hierarchy			
	Note	**Carrying Value**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and other cash items	*4*	**P17,878,613**	**P17,878,613**	**P -**	**P17,878,613**	**P -**
Due from BSP	*5*	**16,623,419**	**16,623,419**	-	**16,623,419**	-
Due from other banks	*6*	**298,334,079**	**298,334,079**	-	**298,334,079**	-
Loans to customers	*7*	**421,911,502**	**421,911,502**	-	**421,911,502**	-
Debt securities at amortized cost	*8*	**185,016,863**	**185,016,863**	-	**185,016,863**	-
Other assets*	*11*	**9,288,615**	**9,288,615**	-	**9,288,615**	-
		P949,053,091	**P949,053,091**	**P -**	**P949,053,091**	**P -**
Financial Liabilities						
Deposit liabilities	*12*	**P628,073,856**	**P628,073,856**	**P -**	**P628,073,856**	**P -**
Accounts payable	*13*	**50,026,155**	**50,026,155**	-	**50,026,155**	-
Other liabilities**	*14*	**9,080,561**	**9,080,561**	-	**9,080,561**	-
		P687,180,572	**P687,180,572**	**P -**	**P687,180,572**	**P -**

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***Excluding statutory payables*

		December 31, 2021				
			Fair Value Hierarchy			
	Note	Carrying Value	Total	Level 1	Level 2	Level 3
Financial Assets						
Cash and other cash items	*4*	P14,743,134	P14,743,134	P -	P14,743,134	P -
Due from BSP	*5*	16,698,796	16,698,796	-	16,698,796	-
Due from other banks	*6*	424,071,081	424,071,081	-	424,071,081	-
Loans to customers	*7*	350,067,378	350,067,378	-	350,067,378	-
Debt securities at amortized cost	*8*	118,828,135	118,828,135	-	118,828,135	-
Other assets*	*11*	6,686,270	6,686,270	-	6,686,270	-
		P931,084,794	P931,084,794	P -	P931,084,794	P -
Financial Liabilities						
Deposit liabilities	*12*	P647,114,527	P647,114,527	P -	P647,114,527	P -
Accounts payable	*13*	49,009,014	49,009,014	-	49,009,014	-
Other liabilities**	*14*	16,445,119	16,445,119	-	16,445,119	-
		P712,568,660	P712,568,660	P -	P712,568,660	P -

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***Excluding statutory payables*

There were no transfers among levels in the fair value hierarchy in 2022 and 2021.

27. Financial Risk and Capital Management, Policies and Objectives

Introduction and Overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk; and
- market risk.

Risk Management Framework

The Bank manages risk and capital through a framework of principles, organizational structures as well as measurement and monitoring process.

Financial Risk and Capital Management Principles

The Bank's BOD has overall responsibility for the establishment and oversight of the risk management framework. The BOD has established Credit Committee, which are responsible for developing and monitoring risk management policies in their specified areas. All BOD Committees have both executive and non-executive members and report regularly to the BOD on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are viewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following information discusses the Bank's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks:

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans to customers and other banks' investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank holds collateral against loans to customers (except microfinance loans) in the form of mortgage interest over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Generally, collateral is not held over due from other banks and microfinance loans.

The BOD has established a credit policy under which, each new customer is analyzed individually for creditworthiness before approval of loan application.

The review and analysis is based on information and documents submitted, which includes external ratings and investigations.

ECL Parameters and Methodologies
In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions. The Bank uses a provision matrix to calculate ECLs for loans to customers. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Bank's historical observed default rates. The Bank will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the banking sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Bank's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Definition of Default
As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in Section 304, *Accounts Considered as Past Due*, of the latest MORB. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions: impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Significant Increase in Credit Risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Generally, the Bank applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Incorporation of Forward-looking Information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans to customers consist of different portfolios, such as microfinance, commercial and consumer loans.

The key forward-looking economic variables used in each of the economic scenarios for the ECL calculations are gross domestic product (GDP) rates for 2022 and consumer price index (CPI) rates for 2021

The specific rates used are shown in the table below:

	2022	2021
CPI		
Peak*	-	4.50%
Trough**	-	2.13%
GDP		
Peak*	**7.60%**	-
Trough**	**1.90%**	-

**Peak represents the highest average rate*
***Trough represents the lowest average rate*

In monitoring credit risk, customers are banked according to their credit characteristics, including whether they are individual or legal entity, industry, aging profile and maturity (see Note 25).

<u>Liquidity Risk</u>
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities (see Note 25).

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the BOD.

All liquidity policies and procedures are subject to review and approval by the BOD. The Bank assessed the concentration of risk with respect to its financial liabilities and concluded it to be low. The Bank has access to a sufficient variety of sources of funding and liabilities maturing within 12 months can be rolled over with existing creditors.

Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank is not exposed to foreign exchange and price risks because it does not have foreign currency denominated financial assets and liabilities nor holds investments in equity securities classified as fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), respectively. The Bank is not also engaged in commodity trading; hence, is not exposed to commodity price risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial assets.

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

Interest computation used by the Bank is add-on for microfinance and based on diminishing balance for small and medium enterprises loans. As to the interest rate of the Bank's deposits from customers, the substantial amount are the termed deposits.

Capital Management

The BOD's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The BOD monitors the return on equity, which the Bank defines as net income divided by the average capital accounts.

Capital is composed of the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the Bank;
- unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; and
- deferred tax.

  The BOD seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Bank's approach to capital management during the year.

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

The BSP sets and monitors capital requirements for the Bank. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10%.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier 2 capital, which includes collective impairment allowances (general loan loss provision subject to certain limitation).

Risk-weighted assets are computed under Appendix to Section 127, *Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks*, of the latest MORB.

The capital-to-risk assets ratio of the Bank as reported to the BSP is shown in the table below (amounts in millions):

	2022	2021
Tier 1 capital	**P313.21**	P256.51
Tier 2 capital	**4.25**	7.19
Total Qualifying Capital	**P317.46**	P263.70
Risk-weighted Assets	**P996.73**	P1,071.77
Total qualifying capital expressed as a percentage of total risk-weighted assets	**31.85%**	24.60%
Total tier 1 capital expressed as a percentage of risk-weighted assets	**31.42%**	23.93%

The Monetary Board, in its Resolution No. 1145 dated August 4, 2022, approved the amendments to the relevant provisions of the latest MORB aimed at increasing the minimum capital requirements for rural banks to P50 million. The new minimum capitalization requirement is part of the initiatives under the Rural Bank Strengthening Program (RBSP). The RBSP was developed to enhance the operations, capacity, and competitiveness of rural banks. It is anchored on the principle that a safe and sound bank is well-capitalized. A strong capital base enables rural banks to enhance their risk management systems, upgrade resources and manage operational costs, meet prudential standards, and accelerate digital transformation.

Section 121, *Minimum Capitalization*, of the latest MORB, increased the minimum capital requirement for all bank categories to ensure that banks stand on a strong capital base to support a threshold scale of operations, to operate viably and service effectively the needs of clients as approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014.

Under Section 121 of the latest MORB, the required minimum capitalization for the Bank as a rural bank with up to 10 branches is P30 million. On August 4, 2022, the Monetary Board approved the amendments to the relevant provisions of the MORB aimed at increasing the minimum capital requirements for rural banks. BSP Circular No. 1151, *Amendments to the Minimum Capitalization of Rural Banks,* states that the minimum capitalization for rural bank with up to 5 branches is P50 million.

The Bank is compliant with the capital adequacy ratio and required minimum capitalization for the years ended December 31, 2022 and December 31, 2021.

Minimum Liquidity Ratio
To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on and off-balance sheet liabilities. In accordance with Sec. 145, *Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks of the latest MORB*, a prudential MLR of twenty percent (20%) shall apply to banks on an on-going basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

In accordance with BSP Memorandum No. M-2020-020, Reduction in the MLR in response to COVID-19, pursuant to Monetary Board Resolution No. 427.B dated March 26, 2020, the MLR for stand-alone thrift banks, rural banks and cooperative banks, as set out in Section 145 of the MORB, is hereby reduced from 20% to 16% effective until December 31, 2020, and was extended until December 31, 2021, by virtue of BSP Memorandum No. M-2020-085, Extension of the Effectivity of the Temporary Reduction in the MLR in response to COVID-19.

Further, in accordance with BSP Memorandum No. M-2022-024, the effectivity of the temporary reduction in the MLR was extended until December 31, 2022.

The Bank's MLR as percentage are as follows:

	2022	2021
Stock of liquid assets	**P516,288,956**	P573,354,718
Qualifying liabilities	**607,251,990**	625,742,132
	85.02%	91.63%

The Bank is in compliance with such MORB provision for the years ended December 31, 2022 and December 31, 2021.

Minimum Leverage Ratio
In accordance with Section 3, *Prompt Corrective Action Framework*, of the latest MORB, the minimum leverage ratio requirement is 5%.

The Bank's leverage ratios as percentage are as follows:

	2022	2021
Total capital	**P333,580,040**	P286,651,685
Total assets	**1,029,920,225**	1,018,890,025
	32.39%	28.13%

Consequently, the Bank is compliant for the years ended December 31, 2022 and December 31, 2021

28. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

29. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except for the amendments to standards as discussed below.

Adoption of Amendments to Standards
The Bank has adopted the following amendments to standards starting January 1, 2022 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16, *Leases*). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

  The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments but becomes eligible as a result of the extension.

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

  The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. It applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Lease Incentives (Amendment to PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

Financial Assets and Liabilities

Recognition and Measurement

The Bank initially recognizes loans and advances to customers on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial instruments) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial Assets

On initial recognition, a financial asset is measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

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

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any liabilities or expected sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of Whether Contractual Cash Flows are SPPI
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same asset or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the asset is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Subsequent Measurement and Gains and Losses

- Financial assets at FVTPL - Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss;
- Financial assets at amortized cost - Measured at amortized cost using effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss;
- Debt securities at FVOCI - Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss; and
- Equity investments at OCI - Measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial Liabilities
Financial liabilities are subsequently measured at amortized cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Any cumulative gain or loss recognized in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

Impairment: Nonderivative Financial Assets

The Bank recognizes loss allowances for ECLs on:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures allowance for impairment losses at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined 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.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECLs.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments' otherwise are referred to as 'Stage 3 financial instruments'.

Measurement of ECL
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial Assets that are not Credit-impaired at the Reporting Date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- *Financial Assets that are Credit-impaired at the Reporting Date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

- *Undrawn Loan Commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- *Financial Guarantee Contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured Financial Assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECLs are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the 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.

Credit-impaired Financial Assets
At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of Allowance for ECL in the Statement of Financial Position
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined allowance for impairment losses for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the allowance for impairment losses over the gross amount of the drawn component is presented as a provision; and
- debt securities measured at FVOCI: no allowance for impairment losses is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the allowance for impairment losses is disclosed and is recognized in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘recovery of previously written off accounts’ in the statement of profit or loss and other comprehensive loss.

<u>Offsetting</u>
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under PFRSs, or for gains and losses arising from a group of similar transactions.

Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Property and Equipment
Items of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use.

Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standard of performance, will flow to the Bank. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, if any.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives are as follows:

	Number of Years
Buildings	12
Furniture, fixtures and equipment	0.5 to 5

The depreciation methods and useful lives are reviewed at each reporting date to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from the assets.

Construction-in-progress is stated at cost and is not depreciated until such time that assets are put into operational use.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Investment Properties
Investment properties are accounted for using cost model. Under this model, investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. An investment property acquired through an exchange transaction is measured at the 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' upon:

- entry of judgment in case of judicial foreclosure;
- execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of Deed of Dacion in case of payment in kind (dacion en pago).

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Direct operating expenses related to investment properties, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties of 10-20 years.

Investment properties are derecognized when it has either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains and losses on derecognition of investment properties are recognized in profit and loss in the year of derecognition.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, and Right-of-Use Assets

The carrying amounts of the Bank's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In respect of nonfinancial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined at reversal date, net of depreciation or amortization, if no impairment loss had been recognized.

Noncurrent Assets Held-for-sale

Noncurrent assets held-for-sale include properties acquired through foreclosure that the Bank intends to sell within one year from the date of classification as held-for-sale.

The Bank classifies a noncurrent 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 sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The Bank shall recognize an impairment loss for any initial and subsequent writedown of the asset to 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 or amortization.

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 shall cease to classify the asset as held-for-sale and will reclassify it as investment properties for land and building, or other properties for chattel and other assets. For building under investment properties or other properties, this would be subject to depreciation.

<u>Leases</u>
At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in PFRS 16.

Bank as Lessee
The Bank applies a single recognition and measurement approach for all leases. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's IBR. Generally, the Bank uses its IBR as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use asset that do not meet the definition of investment property and property and equipment in 'right-of-use assets' and lease liability in 'lease liabilities' in the statement of financial position.

Short-term Leases
The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

COVID-19-Related Rent Concessions
The Bank has applied COVID-19-related rent concessions. The Bank applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Bank applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Bank chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Bank assesses whether there is a lease modification.

Equity
Capital Stock
Capital stocks are classified as equity. Incremental costs directly attributable to the issuance of ordinary stocks and stock options are recognized as deduction from equity, net of any tax effects.

Dividends on Common Stocks
Dividends on common stocks are recognized as a liability and deducted from equity when approved by the BOD or respective shareholders of the Bank. Dividends for the year that are approved after the financial reporting date are dealt with as subsequent event.

Retained Earnings
Retained earnings include profit or loss attributable to the equity holders of the Bank and reduced by dividends on capital stock. It may also include changes in accounting policy to the extent practicable, except when the transition provisions in other standards require otherwise, restatements to correct errors, all current and prior period results as disclosed in the statement of profit or loss and comprehensive loss.

Appropriated Retained Earnings
Appropriated retained earnings are portions of retained earnings that are set aside for a specific purpose and are not available for dividend distributions.

Unappropriated Retained Earnings
Unappropriated retained earnings are portion of retained earnings that are not classified as appropriated retained earnings and are available for dividend distributions.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of control over a product or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer.

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

Revenues within the scope of PFRS 15:

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

Fees and Commissions
Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees are linked to a certain performance of a service or a condition and are recognized after performing the service or fulfilling the condition.

Gains
Gain on sale of properties is recognized when control transfers to the recipient. Gains are measured as the excess of selling price of the property over carrying amount at the time of sale.

Revenue outside the scope of PFRS 15:

Interest Income
Interest income is recognized using the effective interest method at the effective interest rate of a particular financial asset. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of a financial asset to the net carrying amount of that financial asset.

The calculation of the effective interest rate includes all origination fees, transaction costs, and discounts or premiums. Origination fees are incremental fees and charges received by the Bank in facilitating a transaction involving a financial asset. For the loans to customers, origination fees include service fees and charges.

On the other hand, transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

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

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity holders. Expenses are recognized in profit or loss in the year these are incurred.

Income Taxes
Income tax expense for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI, in which case it is recognized in equity or OCI, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax asset is reviewed at each reporting date and reduced, if appropriate.

The Bank offsets deferred tax assets and deferred tax liabilities if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Retirement Liability

The Bank has no established retirement plan for its permanent employees and only conforms to the minimum regulatory benefit under the Republic Act No. 7641, *Retirement Pay Law*, which is of the defined benefit type. The retirement cost of the Bank is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement liability in the future with respect to services rendered in the current year.

Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

The retirement liability is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Defined benefit costs comprise the following:

- service costs;
- net interest on the defined benefit retirement liability; and
- remeasurements of defined benefit retirement liability

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

Net interest on the defined benefit retirement liability is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the defined benefit retirement liability. Net interest on the defined benefit retirement liability is recognized as expense or income in profit or loss.

Remeasurements of DBO comprising actuarial gains and losses are recognized immediately in OCI in the period in which they arise under "Employee benefits reserve", net of income tax effect.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other Long-term Employee Benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Related Party Transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The transactions with each related parties, together with the terms, conditions and outstanding balances, are disclosed in the financial statements.

Events After the End of the Reporting Period

The Bank identifies post-yearend events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any post-yearend events that provide additional information about the Bank's financial position or performance at the end of a reporting period (adjusting events) are reflected in the financial statements. Post-yearend events that are not adjusting events are disclosed in the notes to the financial statements when material.

Amendments to Standard Not Yet Adopted
A number of amendments to standard is effective for annual periods beginning January 1, 2022 and earlier application is permitted; however, the Bank has not early adopted these amendments to standards in preparing these financial statements. The following amendments to standards are not expected to have significant impact on the Bank's financial statements.

To be Adopted on January 1, 2023

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgements*). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:

  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;

  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

  The amendments are effective from January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date.

  For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

To be Adopted on January 1, 2024

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16 Leases). The amendments confirm the following:

  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

  - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. Under PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of PFRS 16.

- Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

- provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and

- clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

To be Adopted on January 1, 2025

- PFRS 17, *Insurance Contracts* replaces the interim standard, PFRS 4, *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

  a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

  b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

  c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in OCI.

  Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

  PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 on or before the date of initial application of PFRS 17.

30. Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks,* to amend certain provisions of the latest MORB and latest Manual of Regulations for Foreign Exchange Transactions. The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either: (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRSs.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

A. Financial Performance Indicators

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

	2022	2021
Return on average equity	**14.03%**	-0.80%
Return on average assets	**4.25%**	-0.23%
Net interest margin	**25.22%**	22.16%

B. Capital Instruments

The Bank considers its capital stock as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2022 and 2021.

C. Significant Credit Exposures as to Industry or Economic Sector

As at December 31, 2022 and 2021, information on the concentration of credit as to industry or economic sector, net of unamortized interest and discounts, are as follows:

	2022		2021	
	Amount	%	Amount	%
Wholesale and retail trade, and repair of motor vehicles, motorcycles	P351,099,649	70.43	P269,908,244	63.69
Accommodation and food service activities	49,502,755	9.93	52,728,513	12.44
Other service activities	32,293,965	6.48	36,549,488	8.62
Agriculture, forestry and fishing	21,029,627	4.22	20,817,021	4.91
Real estate activities	11,911,835	2.39	15,991,409	3.77
Transportation and storage	5,056,694	1.01	7,127,085	1.68
Personal consumption	10,378,781	2.08	6,932,155	1.64
Education	8,512,157	1.71	5,166,265	1.22
Water supply, sewerage, waste management and remediation activities	3,600,610	0.72	4,934,816	1.16
Manufacturing	1,345,119	0.27	1,433,348	0.34
Construction	1,815,592	0.36	1,234,604	0.29
Human health and social work activities	766,674	0.15	610,299	0.15
Electricity, gas, steam and air conditioning supply	258,084	0.05	124,582	0.03
Information and communication	191,611	0.04	73,864	0.02
Arts, entertainment and recreation	311,531	0.06	72,920	0.02
Professional, scientific, and technical activities	2,324	0.00	68,208	0.02
Administrative and support service activities	325,361	0.07	23,252	0.01
Mining and quarrying	95,202	0.02	-	-
	P498,507,771	100	P423,804,052	100

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or a particular economic sector exceeds 30% of total loan portfolio or 10.0% of Tier 1 capital. As at December 31, 2022 and 2021, 10.0% of Tier 1 capital amounted to P31.32 million and P25.65 million, respectively. The tables above include three industry groups exceeding these levels as of these periods. Management believes that the Bank's credit concentration in loans to "Wholesale and retail trade, and repair of motor vehicles, and motorcycles" as at December 31, 2022 and 2021 is justifiable considering that it correlates with the nature of its operation as a rural bank, whose main customers are group of individual entrepreneurs with businesses mostly operating in wholesale and retail industry, repair of motor vehicles and motorcycles.

D. Breakdown of Total Loans as to Security and Status

The following table shows the breakdown of loans to customers, net of unamortized interest and discounts, as to secured and unsecured and the breakdown of loans to customers as to the type of security as at December 31, 2022 and 2021:

	2022		2021	
	Amounts	**%**	Amounts	%
Secured:				
Real estate mortgage	**P36,275,606**	**7.28**	P37,052,185	8.74
Chattel mortgage	**3,480,964**	**0.70**	1,979,105	0.47
Others	-	-	-	-
	39,756,570	**7.98**	39,031,290	9.21
Unsecured	**458,750,802**	**92.02**	384,772,763	90.79
	P498,507,372	**100**	P423,804,053	100

The following table shows the breakdown of loans to customers, net of unamortized interest and discounts, as to performing and non-performing loans as at December 31, 2022 and 2021:

	2022	2021
Performing loans	**P427,197,817**	P342,525,964
Non-performing loans	**71,309,555**	81,278,089
	498,507,372	423,804,053
Allowance attributable to performing loans	**(66,973,001)**	(59,595,291)
Allowance attributable to non-performing loans	**(9,622,869)**	(14,141,384)
	(76,595,870)	(73,736,675)
	P421,911,502	P350,067,378

In accordance with Section 304, *Past Due Accounts and Non-performing Loans,* of the latest MORB, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. 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.

E. Information on Related Party Loans

DOSRI transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under Section 344, *Individual Ceilings,* of the latest MORB, the total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30% of their respective total loans, other credit accommodations and guarantees.

Under Section 345, *Aggregate Ceiling*, of the latest MORB, loans to DOSRI generally should not exceed the lower of the bank's net worth or fifteen percent (15%) of the total loan portfolio. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

The Bank is in compliance with such MORB provisions as at December 31, 2022 and 2021.

The following table shows information relating to DOSRI loans as part of loans to customers:

	2022	2021
Total outstanding loans to Bank's DOSRI	**P -**	P -
Percent of DOSRI loans to total loan portfolio	**0%**	0%
Percent of unsecured DOSRI loans to total DOSRI loans	**0%**	0%
Percent of past due DOSRI loans to total DOSRI loans	**0%**	0%
Percent of non-performing DOSRI loans to total DOSRI loans	**0%**	0%

F. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

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

G. Commitments and Contingent Liabilities

The Bank has no contingencies and commitments arising from off-balance sheet items as at December 31, 2022.

Other relevant disclosures required under BSP Circular No. 1074 are in the audited financial statements under Notes 25, 26, and 27.

31. Supplementary Information Required Under RR No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the notes to the basic financial statements which were prepared in accordance with PFRSs. The following is the supplementary tax information required for the taxable year ended December 31, 2022:

A. Withholding Taxes

Final withholding taxes on interest paid on deposits	**P1,975,060**
Expanded withholding taxes	**731,593**
Final withholding taxes on deposit account of decedent	**651,798**
Tax on compensation and benefits	**112,006**
	P3,470,457

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under Other expenses	
Gross receipts tax	**P12,166,513**
Documentary stamps	**2,587,452**
License and permit fees	**1,015,653**
Real estate tax	**277,218**
Others	**74,077**
	P16,120,913

C. Tax Cases and Assessments

On October 3, 2018, the Bank received a Letter of Authority from the BIR to examine their books of accounts and other accounting records for all internal revenue taxes for the year ended December 31, 2017. On May 28, 2021, the Bank has settled the deficiency taxes due amounting to P1.71 million.

As at December 31, 2022, the Bank has no pending tax cases and assessments.

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