

2022 ANNUAL REPORT

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LEGAZPI SAVINGS BANK



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About the Cover



Legazpi Savings Bank unveils various growth opportunities in 2022. The 'upward arrow' signifies the growing momentum of the Bank as it solidifies its bigger market reach - now responding to the needs of Visayas and Mindanao Regions. The Bank prides itself in the implementation of its digital strategies that brings forth better banking experience to its clientele. Fueled with the collaborative efforts of its talented and diverse workforce, the future is brighter than ever.

Vision

“To be a top-of mind Savings Bank in personal loans and deposits that serve that changing needs of the Filipino.”

Mission

“To provide the best value and service to our customers by being a cost efficient operator in our chosen market segment.”

Business Model

“Aided by technology and a tech-driven culture, we aim to consistently give the best value to our customers by being the least cost operator in the teacher's loan market.”

President's Message

The management's decision to be a one-product institution focusing on DepEd's Automatic Payroll Deduction System (APDS) was a major turning point for LSB. In line with this new direction, significant changes had to be implemented. The Bank sold its consumer loans totalling P274 Million to the parent bank on March 31, 2022 and its microfinance portfolio totalling P 73 Million to another institution on April 30, 2022. In July 2022, as part of its overall strategy, the Board approved the change in business model of its APDS loans

receivables to FVOCI. With this approval, LSB will sell its teacher's loan portfolio to RBank in order to address its liquidity requirements as a result of continuously growing the DepEd's APDS loan portfolio.

2022 was a remarkable year for the teacher's loans business. With P679 Million APDS loans sold to RBank, outstanding balance as of December 31, 2022 was P2.975 Billion or a 120% growth from last year's P1.349 Billion. Total bookings was P3.941 Billion or 184% higher than last year's bookings of P1.390 Billion. Several factors contributed to the increase in the APDS volume, the most significant of which was the enhancement of the APDS online process with the introduction of the acceptance key. With this innovation, teachers can sign documents without physically going to the bank thus, providing them with a better customer experience. We also augmented the number of agents from 44 to 121 to boost the marketing workforce. Along with the increase in the number of agents, we introduced the automated referral system for proper tracking of incentives. During the year, we were also approved by DepEd to offer loans in three more provinces - Marinduque, Romblon and Cagayan de Oro. There's no stopping indeed for our APDS business as eight additional kiosks were put up in Davao, General Santos, Antique, Butuan, Tacloban, Dumaguete, Zambales and Bataan in line with our vision of offering the product nationwide.

In 2021, the Bank intended to transfer selected

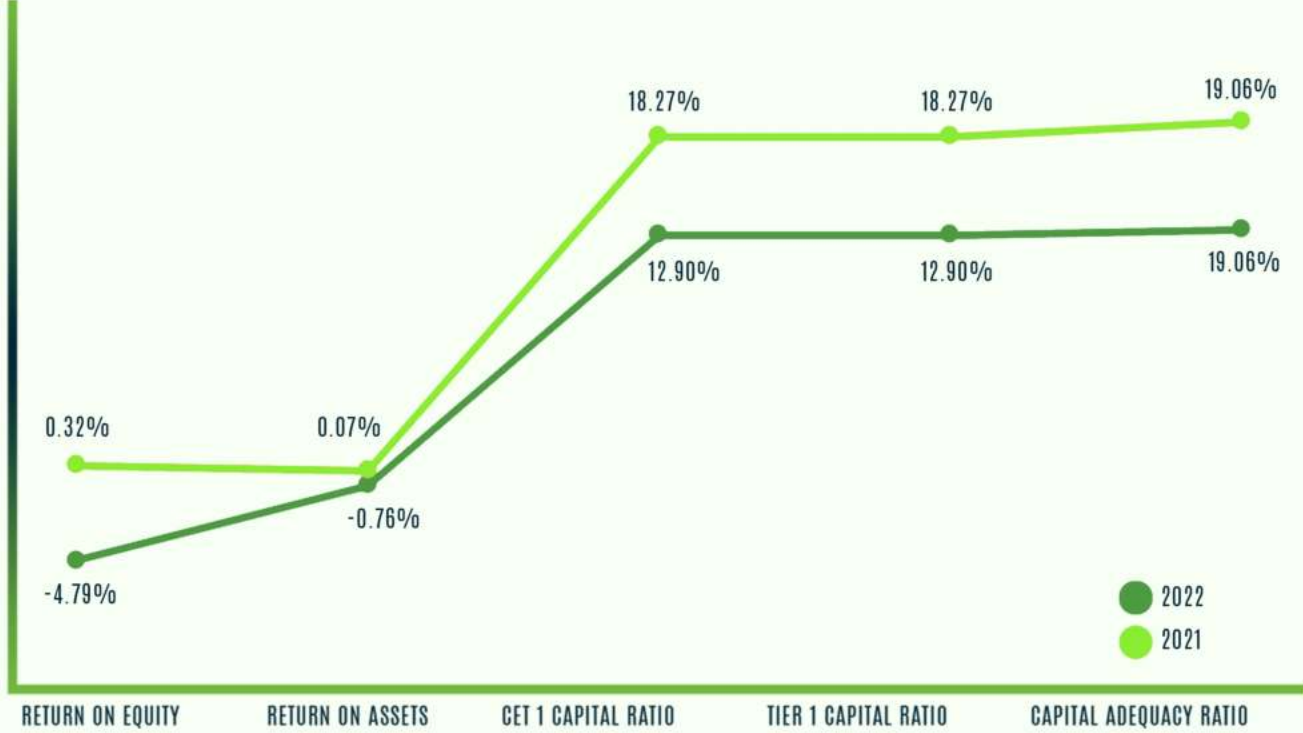
assets and liabilities to the parent bank as part of its strategies to focus in growing DepEd's Automatic Payroll Deduction System (APDS) loans. With its deferment, the disposal group ceased to be classified as assets and liabilities held for sale in October 2022. Notwithstanding the effect of the classification of selected assets and liabilities to disposal group, gross loans increased by 55.01% or by P1.16 Billion owing to the increase in the APDS portfolio while Deposit Liabilities increased by 77.25% or by P 1.69 Billion. Non-Performing Loans increased by 1% or by P2.00 million. The Bank's liquid assets grew tremendously by 597.25% or by P933.78 million as excess funds were placed at the BSP's ODF and TDF. Despite the sale of APDS loans to the parent bank, total assets increased by 56.98% or by P1.69 billion. During the year, the Bank's equity dropped by 3.16% or by P 19.50 Million as a result of the reversal of the Deferred Tax Asset dragging the Bank's Operating Income.

The total net interest income declined by 6.87% or by P20.54 Million as a result of the sale of microfinance and consumer loans business. With the 21% decrease in the Operating Expenses, the Bank registered a Net Income before income tax of P33.45 Million compared with last year's Loss of P9 Million. During the year, we wrote-off P144 Million Other Assets pertaining to losses incurred by the old management prior to the acquisition of LSB, thus the need to write-down corresponding Deferred Tax Assets. As a result of this write-down, we booked provision for income tax of P 62.53 Million hence the Bank incurred a Net Loss of P29.07 Million in contrast to last year's Net Income of P2 Million. No dividend was declared during the year.

The impressive growth in the 2022 financials in terms of assets and business transactions is proof that LSB has turned the corner and that a bigger, better and brighter LSB is clearly in the horizon.

Headcount	2022	2021
Officers	66	76
Staff	192	279
Total	258	355

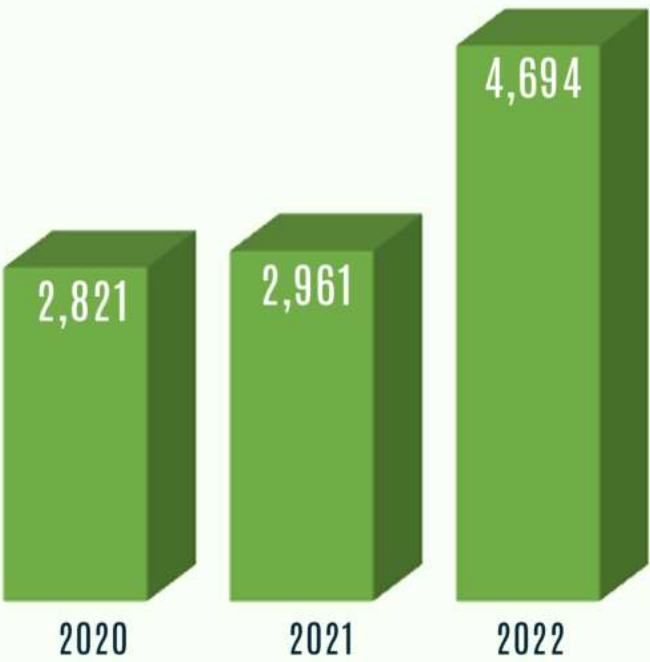
SELECTED RATIOS



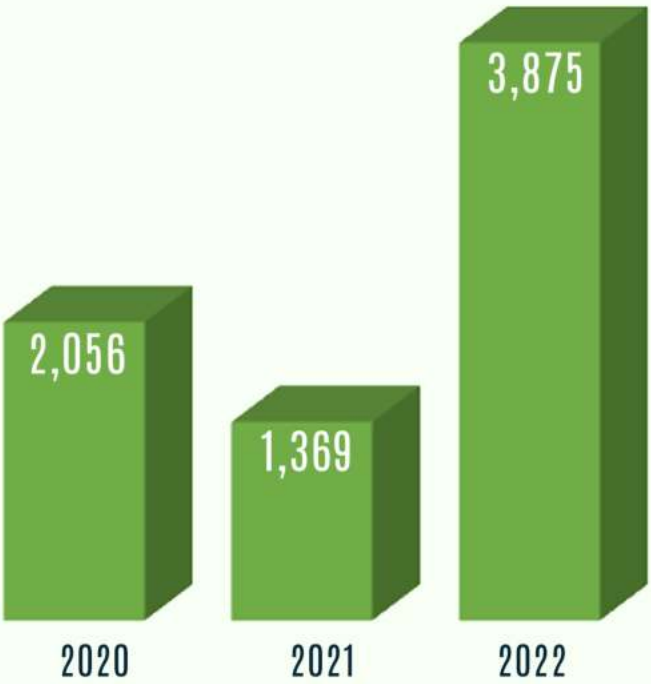
Mykel D. Abad

FINANCIAL HIGHLIGHTS

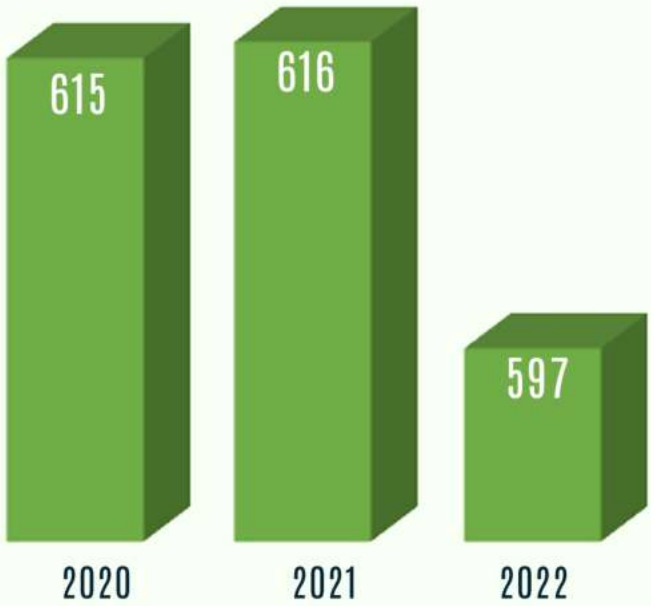
TOTAL ASSETS
(In PHP Millions)



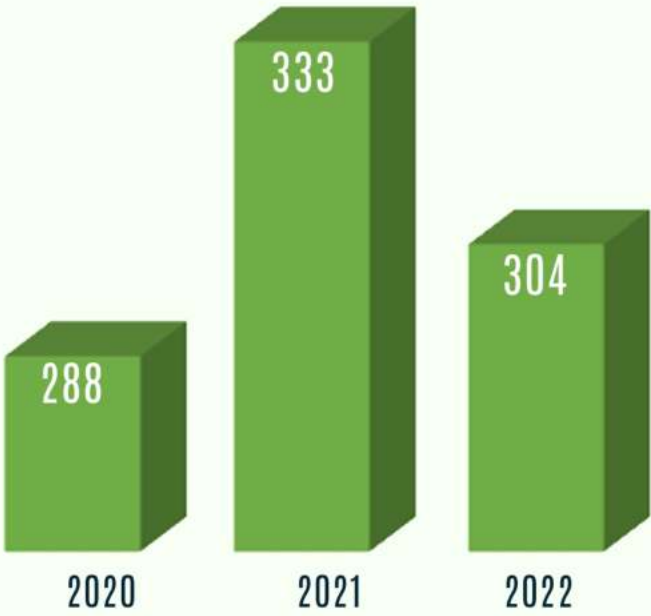
DEPOSIT LEVELS
(In PHP Millions)



CAPITAL FUNDS
(In PHP Millions)



GROSS INCOME
(In PHP Millions)



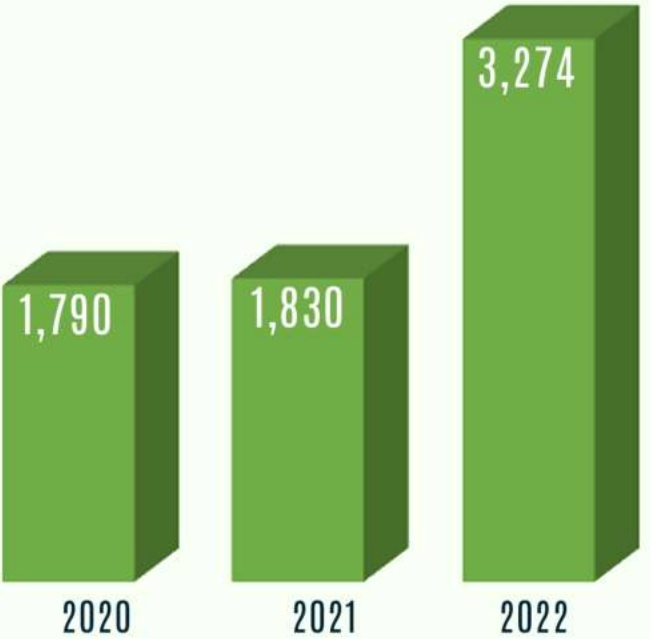
OPERATING EXPENSES
(In PHP Millions)



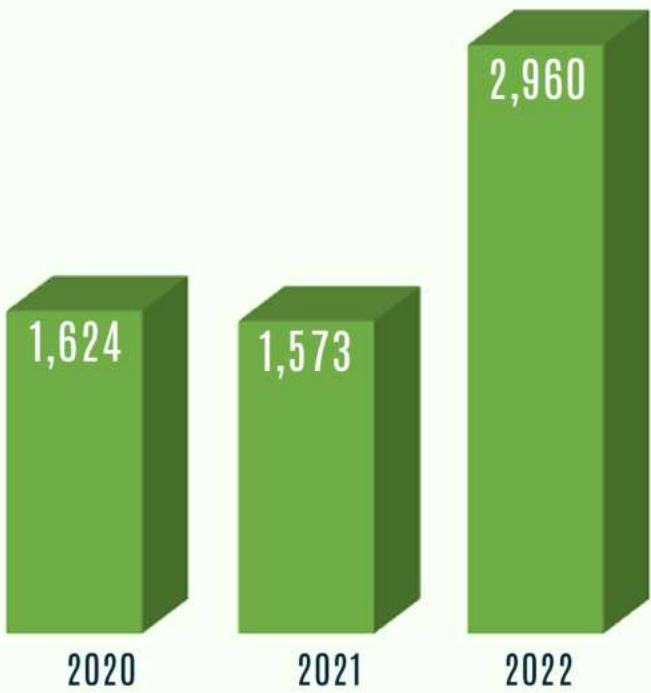
NET INCOME
(In PHP Millions)



GROSS LOAN PORTFOLIO
(In PHP Millions)

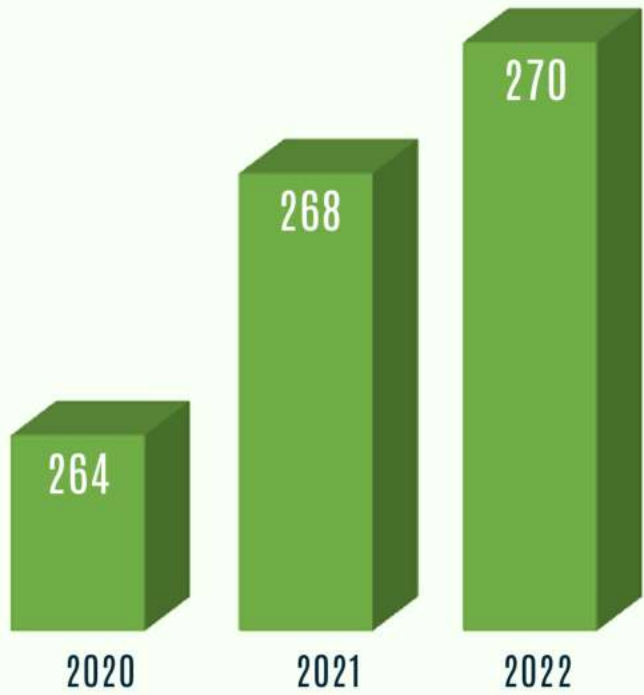


LOANS & OTHER RECEIVABLES
(In PHP Millions)

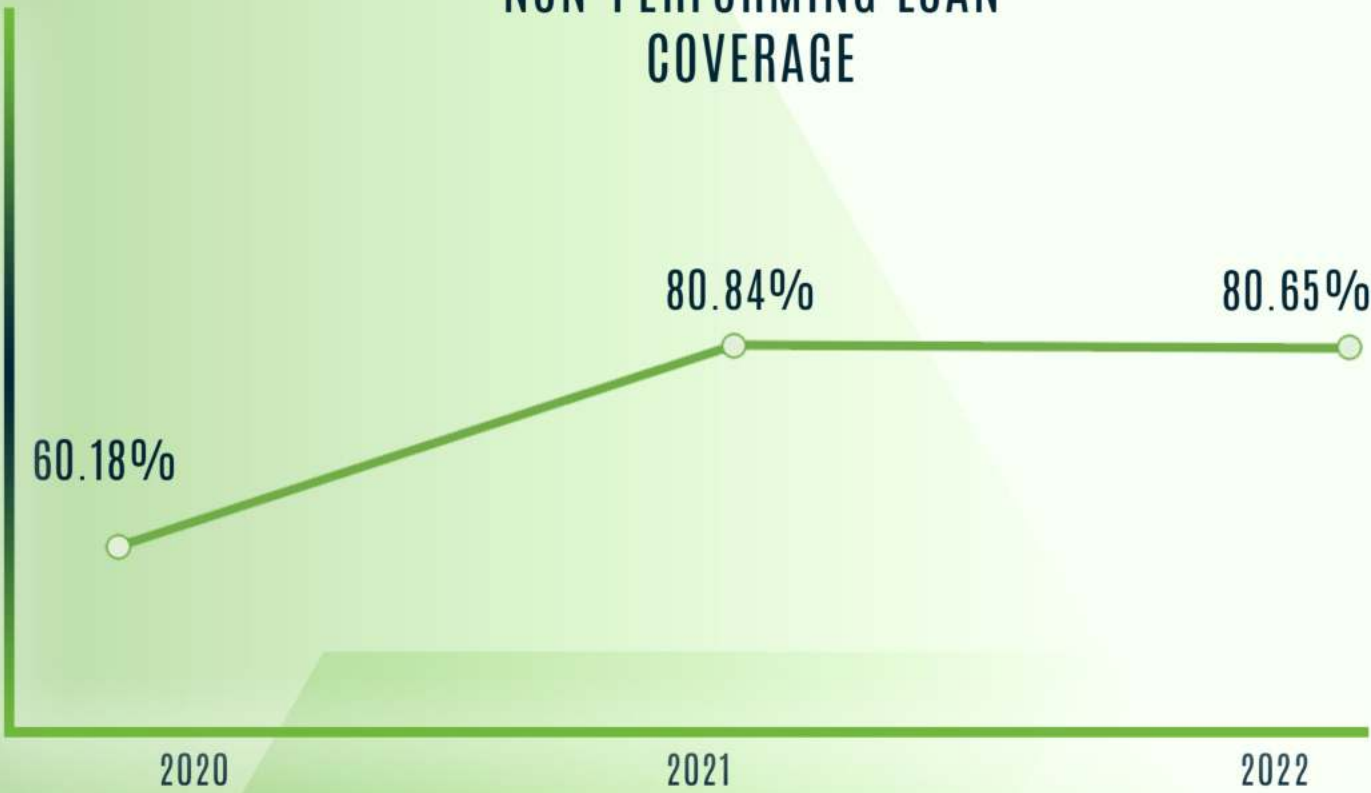


FINANCIAL HIGHLIGHTS

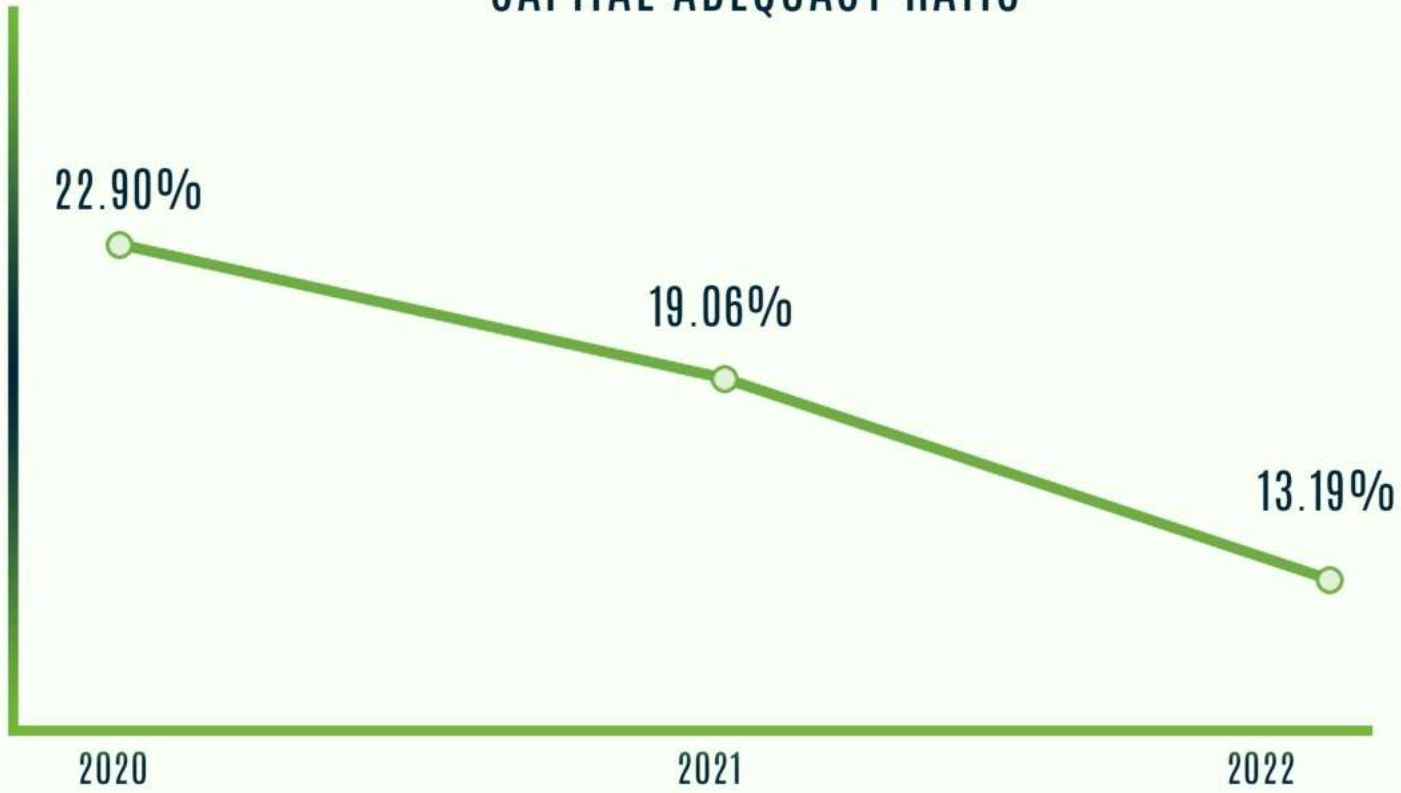
NON-PERFORMING LOAN
(In PHP Millions)



NON-PERFORMING LOAN
COVERAGE



CAPITAL ADEQUACY RATIO



RETAIL BANKING GROUP

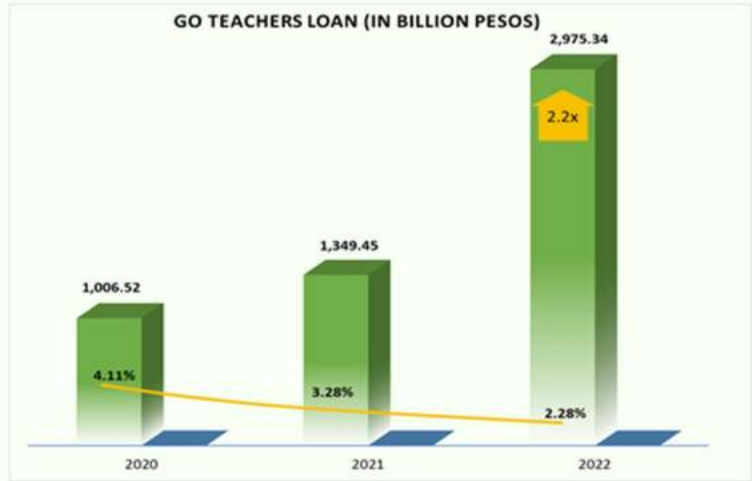
Creation of Branch Banking Department

In line with the company's goal to consistently give the best value to its customers by being the least cost operator in the teacher's loan market, the Board approved the new table of organization in December 2022. Under the new table of organization, the Retail Banking Group is now directly reporting to the President headed by Mr. Victor Dela Cruz. Under its umbrella are the following units: Lending Group, APDS Marketing Group and the Branch Banking Department. The latter is a newly created segment which is headed by Ms. Rean Apdua. The Branch Banking Department handles all fourteen (14) branches, fourteen (14) branch-lite units and the Customer Experience Unit. With this new organizational set-up, the Bank can be cost efficient and at the same time respond to the customer's needs and concerns immediately.

RETAIL BANKING GROUP

GO! Teacher's Loan

In 2022, prompted LSB to pivot into a new business model that of focusing to Go! Teacher's loan aided by technology. As a result, GO! Teacher's Loan portfolio grew by 120.53% in 2022 to P2.97 Billion from P1.35 Billion in 2021 and P1.00 Billion in 2020. While past due is well managed and further went down to 2.28% in 2022 from 3.28% in 2021 and 4.11% in 2020.



The significant increase in loan portfolio was also driven by intensified marketing effort through personalized service, increasing area of coverage and aided by digital marketing.

The bank roll out its online application that further aided the expansion of the Go! Teacher's Loan reaching other areas even without LSB branches. While bulk of the releases is still being generated by Region 5 – Bicol, other regions showed substantial growth in their loan releases in 2022; NCR & Rizal, Regions - 1, 2, 3 , 4A & 4B, and 6. While other new Regions 7, 8, 11, 12 & 13 also started to contribute to the total releases on the said year.

Region	YTD Actual as of 12.31.2021	YTD Actual as of 12.31.2022	Loan release growth rate (%)
Region 5	870.38	1,871.64	115%
Region 4A	237.66	793.68	234%
NCR & Rizal	122.88	433.08	252%
Region 4B	29.11	307.94	958%
Region 6	15.95	175.63	1001%
Region 1 & NE and CAR	6.79	134.65	1883%
Region 3	20.56	89.17	334%
Region 2	0.75	55.73	7350%
Region 11	-	28.95	0%
Region 12	-	27.78	0%
Region 13	-	14.06	0%
Region 8	-	8.92	0%
Region 7	-	1.90	0%
Total	1,304.07	3,943.13	

With the rising competition on Go Techer's loan, the bank will soon roll out its referral system that will help further increase its loan booking.

GO! Teacher's Loan further offered to other areas.

Legazpi Savings Bank (LSB) offered its GO! Teacher's Loan to new areas in Region 4B - MIMAROPA and in Mindanao. The Department of Education granted the authority to the Bank to utilize Go Teachers Loan facility in Region 10 - Cagayan De Oro, Mindanao. We also expanded Region 4B (MIMAROPRA) business to Marinduque and Romblon. With the new authority and additional area of coverage, the Bank Go! Teacher's Loan is now being offered nationwide and will be able to service its loan customers from DepEd (teaching and non-teaching personnel) across the country and further increasing its market share.



RISK MANAGEMENT

Legazpi Savings Bank aims to provide retail financial products and services that promotes financial inclusion, sustainability, and value for all its stakeholders.



Risk Management Culture and Philosophy

Legazpi Savings Bank aims to provide retail financial products and services that promotes financial inclusion, sustainability, and value for all its stakeholders. As the bank take this journey, risk management will be an important aspect of its business. The Bank's philosophy includes the following:

1. Risk standards aligned with internationally-accepted principles, practices and regulations in the Bank's day-to-day administration of performance and risk management;
2. Proactive exposure management using prudent risk-taking activities which serves as its foundation of sustainable growth, sound capitalization and profitability
3. Commitment to create a risk-awareness culture within the organization by instituting and upholding the highest standards of professionalism, work ethics and integrity among its employees, highlighting the utmost value of risk process, establishing a solid internal control framework and promoting the effective utilization of its capital investments

The Bank's risk management is headed by a Chief Risk Officer responsible for overseeing the risk management function and is complemented by a team of risk management personnel assigned for each risk areas. The team ensures that risk governance and control framework, policies and practices are in place. The CRO directly reports to the Risk Oversight Committee for guidance and direction.

The responsibility of risk management rests upon the respective Senior Management and Board Level committees authorized by the Board of Directors to establish the Bank's risk management strategy.

Risk Appetite Statement

"To contribute a Return on Equity acceptable to the shareholders and at par with the industry by generating earning assets, deposits and fee-based transactions, expanding Bank's reached to other regions, improving profitability and asset quality through prudent deployment of capital while consistently complying with regulatory requirements"

Notwithstanding its quest for growth and profitability, the Bank would like to maintain a CAR more than or equal to the regulatory requirement. This is to ensure that capital would still be sufficient to meet future regulatory requirements.

Major Enhancements

Similar to its parent bank, Legazpi Savings adopts a forward-looking and dynamic risk management framework. As the bank continues to push for its aggressive growth, significant risk management initiatives were undertaken during the year which include continuous adherence to the new accounting standard by adopting the IFRS 9 – Financial Instruments Recognition and Measurement particularly on

the adoption of Expected Credit Loss (ECL). The bank ensures that assumptions were regularly enhanced to include most recent economic outlook considering the recent impact of the pandemic.

Enhancement of the Interest Rate Risk in the Banking Book and amendment of the guidelines on Market Risk Management in compliance with BSP Circular No. 1044.

Adoption of the Reputational Risk Framework anchored to the parent bank and comply with BSP Circular 1048 - Consumer Protection Guidelines and Procedures.

Adoption of the Risk Assessment Guidelines for new projects and initiatives of the bank.

Lastly, the Bank continuously comply with RA 10173 – Data Privacy Act, appointed a new Data Privacy Officer (DPO) and updated registration of the bank as Personal Information Controller (PIC) with NPC and enhanced DPO policies of the Bank.

CREDIT RISK

As LSB continues to build its portfolio, it still takes utmost importance to credit quality, capital preservation and profitability. LSB's focus is on highly retail loans mostly catering to the countryside and market not captured by the Parent Bank. Ultimately, every loan or investment decision is driven by its culture of prudence, conservatism, active management, excellent due diligence process, which was instilled by its Parent Bank. LSB's strategies which impacts credit risk management are as follows:

- Lending or investing on stable and seasoned companies that are owned or managed by professionals and

entrepreneurs;

- Ensuring that every loan will provide optimal return for the stakeholders;
- Focusing on banner products such as DepEd loans, Microfinance loans and Housing Loans;
- Preserving asset or capital through low risk, adequate collateral or securities loans;
- Expanding reach through deliberate but steady organic growth of the loans; and
- Seeking for excellent opportunities for loan portfolio growth by not hesitating to take advantage of acquiring other banks or financial institutions (FI's).

The Bank's approach to credit or investment is generally straightforward, that there is no substitute for a sound credit due diligence. Loans and/or investments shall be pursued not based solely on the yield but rather on the viability and stability of a borrower's cash flows. Finally, LSB's credit philosophy of asset growth and capital preservation and its credit culture of prudence and conservatism instituted through the strong oversight of its Parent Bank which stems from the long banking experience of its shareholders.

The following are the stakeholders of the bank's risk management function:

- *Risk Oversight Committee (ROC) / Board of Directors (BOD) – oversee the development and oversight on the risk management program of the Bank.*
- *Credit Cycle Department – implements the evaluation and approval of all loan accounts and all collection efforts for all past due accounts. CCD likewise submits its reports to senior management on a periodic basis. It also acts as the independent credit risk control unit which handles the review*

RISK MANAGEMENT

of credit applications for renewal and new transactions.

- *Financial Reporting Department – submits regulatory reports on credit and also provides information on bank exposures.*

- *Risk Management Unit (RMU) – directly reports to the ROC and in charge in the implementation and execution of the Risk Management Plan as approved by ROC. RMU shall make recommendations and submit reports to the ROC on credit risk management matters affecting the Bank.*

Credit Risk Mitigation, Control and Reporting

The Bank employs the following credit risk mitigation practices:

- Employing risk acceptance criteria that will serve as guide in granting loan applications
- Limit setting for the amount of credit risk taking activities and exposures are monitored to ensure adherence to such credit limits
- Observing regulatory limits such as single borrower's limit (SBL), large exposures, and directors, officers, stockholders and related interests (DOSRI) ceilings, among others. These exposures are likewise reported to the ROC and the BOD.
- Performing portfolio quality reviews to determine performance of the portfolio along with their causes and consequences, allowing the recommendation of appropriate action plans.
- Utilizing credit scoring models embedded in the bank's loan origination systems
- Monitoring past due and non-performing loan (NPL) ratios to measure the quality of the loan portfolio.
- Calculating Expected Credit Loss (ECL), relative to the implementation of IFRS 9, to assess the appropriateness of loan loss provisions and determination of risk profile of each

customer loan accounts.

CREDIT CONCENTRATION RISK

Concentration Risk is the risk faced by the Bank when a number of counterparties are engaged in similar activities or business industries, activities in the same geographic region, or have similar economic features.

As of December 31, 2022, the Bank has a total loan portfolio of Php3.271Bn (inclusive of the Php6.19 Million residential real estate loan to individual household for occupancy). Among the industries, borrowers from Personal Consumption have the biggest exposures amounting to Php3.110 Billion or 95% of the total loan portfolio, due to the Bank's focus on highly retail loans. This is followed by wholesale and retail with Php72.17 Million or 2%, other services activities with Php33.36 Million or 1%, and agricultural, hunting and forestry with Php29.19 Million or 0.93%.

Based on the Sectoral Concentration Index (SCI) used in computing for the Industry Concentration risk, as of December 31, 2022 the Bank needs to provide additional capital charge of Php27.04 Million, considering that the bank has risk concentration on Personal Consumption industry portfolio.

The said portfolio is mainly due to the focus on granting teachers loans exposing the Bank to credit concentration on Salary Based General Consumption loans which the bank recognizes and accepts considering the low-risk characteristic of the portfolio. Also, given that the bank continues to monitor its asset quality, risk exposure and compliance to the accreditation the bank has entered into.

Likewise, based on the Individual Concentration Index (ICI)

metric used in computing for the top borrower's concentration risk, it shows that the Bank does not need an additional capital charge considering that loan portfolio of the bank is mostly retail and highest loan exposure per individual is below Php15 Million, which is way below the bank's Single Borrowers Limit. This is because the resulting ICI is almost NIL. Considering that the December 2022, computed ICI resulted to zero thus, no additional charge was made for December 2023 and succeeding years until 2025.

OPERATIONAL RISK

The Bank's philosophy of operational risk management, as adopted from its Parent Bank for consistency of implementation, has its foundation in the concept that taking risks is required in order to seek rewards and to fulfill the company's vision and mission. The Bank also acknowledges that operational risks, which are present in all phases and levels of every business undertaking, should be identified and assessed in order to ensure that effective mitigation strategies are employed to the greatest extent possible.

The Bank adopts the definition of operational risk as provided in BSP Circular 900 (Guidelines on Operational Risk Management), to wit; "Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, but excludes strategic and reputational risks."

The Bank further acknowledges that "operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

As the Bank implements the enterprise-wide approach in risk management, it has designed a framework wherein everybody in the organization is aware, not just of the presence of operational risk in every process and function, but more importantly, of their respective roles in managing it. The Bank implements the three (3) lines of defense model in managing operational risk:

1. The first line of defense rests with the business lines which are responsible on day-to-day risk management. Part of this role is ensuring that internal controls are strictly observed and practices within their business lines are consistent with the enterprise-wide policies and procedures. Further, senior management is responsible for the implementation and consistent adherence by all personnel to the operational risk management framework.
2. The second line of defense comes from the operational risk management and compliance testing functions which are both independent of business operations. The Operational Risk Management Department oversees the implementation of ORM framework by designing risk assessment methodology and tools, coordinating risk management activities across the organization, and consolidating and reporting risk information/reports to the Board, thru the Risk Oversight Committee, and Senior Management. On the other hand, the Compliance Group conducts an independent assessment of the Bank's compliance with relevant laws, rules and regulations, as well as internal policies to determine areas that may potentially result in losses due to non-compliance.
3. The third line of defense is the internal audit function which provides independent assessments of the adequacy and effectiveness of the overall risk management framework

RISK MANAGEMENT

and governance structures. This function reports directly to the Board thru the Audit Committee.

Overall, the Bank endeavors to establish an operational risk culture which promotes disciplined risk-taking and creates shareholder value through resources efficiency, loss reduction, increased revenues and lower regulatory capital.

The Bank further acknowledges that "operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

The Bank uses the same operational risk management tools with the Parent Bank in identifying and assessing its operational risk exposures. The levels of operational risk exposure of the various units of the Bank are captured by the following operational risk management tools which are all anchored from the Parent Bank:

- Results of internal/external audit and supervisory issues raised in the BSP Report of examination (ROE)
- Process Mapping
- Risk & Control Self-Assessment (RCSA)
- Business Impact Analysis (BIA)
- Key Risk Indicator (KRI)
- Loss Events Database (LED) and Analysis

The Bank compares the results of the RCSA as against the capital charge for operational risk computed using the Basic Indicator Approach (BIA) in validating the sufficiency of the regulatory capital requirements. Under the BIA, the Bank must hold capital for operational risk equal to 15% of the

average gross income over the previous three years of positive annual gross income.

Using the Basic Indicator Approach, the Bank's operational risk weighted assets as of December 31, 2022 stands at Php 616.87 Million. While capital charge is at Php 61.69 Million.



"Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, but excludes strategic and reputational risks."

The 2022 RCSA exercise yielded net loss exposure lower than the BIA approach. Relative to this, the Bank believes that the capital set aside for operational risk as per BIA is sufficient to cover for operational risk losses.

Information Technology Risk

As the bank implements digital transformation and adopts sustainable processes, exposure to emerging technology risk needs to be addressed. The Bank implements necessary IT Risk Management framework and tools to manage these risks. IT Risk Management include information security and data privacy policies of the Bank.

The Information Technology & Information Security Risk is also included/embodied in the limits of Operational Risk.

The following are the stakeholders who have relevant roles

in the implementation of operational risk management of the Bank.

BOD / ROC - defines the risk culture and exercises oversight.

BUSINESS AND SERVICE UNITS - as first line of defense, takes ownership of the risk by identifying, assessing and managing the risks from the new activities, processes, products and the systems they use. Management, Operations and IT Steering committees are venues to communicate the risk environment.

RMU - second line of defense, oversees Fraud Risk, Information Technology Risk, Business Continuity Management, and the implementation of the ORM framework by designing risk assessment methodology and tools, coordinating risk management activities across the organization, and consolidating and reporting risk information/ reports to the Board, thru the Risk Oversight Committee, and Senior Management.

COMPLIANCE UNIT - complements the Bank's second line of defense by conducting an independent assessment of the Bank's compliance with relevant laws, rules and regulations, as well as internal policies to determine areas that may potentially result in losses due to non-compliance.

INTERNAL AUDIT - the third line of defense, provides independent assessments of the adequacy and effectiveness of the overall risk management framework and governance structures.

MARKET RISK

Market risk refers to changes in the value of financial instruments held by the Bank due to unpredictable fluctuations in prices of traded assets and commodities as well as fluctuations in interest and exchange rates and other market indices which affect either earnings or capital.

Specifically, LSB's market risk is composed only of interest rate risk, equity price and other commodity price risk. LSB's exposures to market risk as of December 31, 2022 is almost NIL since most of its investments, loans and deposit products has fixed rates and impact of the interest rate risk is further assessed using the Interest Rate Risk in the Banking Book (IRRBB) and investments were all classified and booked as Held-to-Collect (HTC) securities, thus only minimal impact to market risk is assumed.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is a form of market risk but it has a multi-dimensional nature involving the movements of rates across yield curves (term structures) of one or more instruments. Specifically, for the Bank's banking book, the lending activities, taking deposits with different maturities and interest rates, and investing in a portfolio of fixed income securities, exposes the Bank to interest rate risk. This risk may affect the recognition and/or accrual of interest income and expense.

The repricing gap analysis is the Bank's initial step in assessing its capital requirement to cover for its interest rate risk. The Bank recognizes that changes in interest rates can have adverse effects both on its earnings and economic value. As of December 31, 2022, the Bank's IRRBB risk-weighted assets and capital charge for interest rate risk in the banking book amounts to Php440.77 Million and

RISK MANAGEMENT

Php44.07 Million, respectively. The amount of IRRBB risk exposure is largely impacted by the Monetary Boards implemented several policy rates increases during 2022 which aggregated to 325 basis points mostly influenced by BSP's efforts to manage inflation. These policy rate changes affected the bank's lending rates and deposit interest rates.

The Bank likewise utilizes the Earnings-at-Risk methodology in assessing the capital requirement of its interest rate risk exposure. Earnings-at-Risk (EaR) of the Bank is an estimate of the annualized maximum change in net interest income given a specified holding period for a particular time band's repricing gap, with a corresponding probability of occurrence in a normal market environment. On a monthly basis, the ROC is apprised of the Bank's balance sheet structure, analysis of its current and projected repricing mismatches, and potential loss on net interest income (EAR). Gap reports are able to capture repricing information of loans, investments and other balance sheet accounts.

Below are the stakeholders who have relevant roles in the implementation of Market & IRRBB risk management of the Bank.

RMU — performs regular repricing gap analysis to measure interest rate risk. The analysis is compared on (EaR) limits set by the BOD.

TREASURY — submits its explanation, justification and proposed strategy to manage the breach, if any.

ALCO — uses the repricing gap report to manage the matching of interest rate sensitive assets and liabilities.

MANCOM/APPROVING AUTHORITY — reviews and

approves the breach given the justification and proposed strategy of Treasury.

ROC/BOD — reviews and deliberates on the result of repricing gap report considering the repricing gap limits set by the BOD.

LIQUIDITY RISK

Liquidity risk is defined by the Bank as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. It includes the inability to manage unplanned decreases or changes in funding sources. It also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The uses the maximum cumulative outflow (MCO) as a tool to measure liquidity gaps of maturing assets and liabilities. The Bank's appetite for liquidity risk is measured through the limits set for each book/fund vehicle, and for each liquidity target. Liquidity risk limits approved for 2022 is at Maximum Cumulative Outflow (MCO) of Php 500Mn. The Senior Management and the Board thru the ROC are kept well informed on the sufficiency of the Bank's funding requirements, likewise breaches in limits are properly identified and reported to Senior Management and ROC. Preventive measures and/or corrective actions are required/taken.

The MCO report as of December 31, 2022 shows that the Bank's liquidity remains at a comfortable level. All books posted positive gaps across all tenors.

The Bank has high volume of liquid assets in the form of

of Cash, Due from BSP, Due from Other Banks and BSP's Overnight Reverse Repurchase (RRP) amounting Php1,370 Millionn or 28% of the total Php4.887 Billionn total assets. These are other liquidity drivers for the Bank and they are assumed to be easily liquefiable in 1 or 2 months.

In compliance to Appendix 71 of Section 145 of the Manual of Regulations for Banks – Guidelines on Liquidity Risk Management. The Bank computes for both Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR) to ensure that the Bank complies to the minimum regulatory requirement.

The following are the stakeholders who have relevant roles in the implementation of liquidity risk management of the Bank.

RMU — monitors the market and regulatory developments pertinent to interest rates and liquidity position; and performs regular maturity gap analysis to measure the maximum cumulative outflow (MCO). The analysis is compared on the MCO limits and liquidity ratios set by the BOD.

TREASURY — measures the liquidity and reserves position of the Bank. It also submits its explanation, justification and proposed strategy to manage the breach, if any.

MANCOM/APPROVING AUTHORITY — reviews and approves the breach given the justification and proposed strategy of Treasury.

ALCO — utilizes the maturity gap report to manage the matching of assets and liabilities. ALCO conducts weekly

meetings.

ROC/BOD — reviews and deliberates on the result of maturity gap report considering the MCO limit and liquidity ratios set by the BOD.

COMPLIANCE RISK

BSP Circular No. 972 provides that the Bank should establish a dynamic and responsive compliance risk management system which is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules and related self-regulatory organization standards, and codes of conduct applicable to its activities. Compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the Bank. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of director

The Bank's Risk Assessment process is covered in its Compliance Program, approved by the Board of Directors. The main procedures performed are summarized as follows:

- *Identification. The Bank identified all historical risk events from all of the Bank's business units. In addition, it identified other business risks and their sources.*

- *Measurement. The Bank analyzed the level of risk associated for each risk event. The level of risk has been*

RISK MANAGEMENT

determined using both quantitative and qualitative measures. Quantitative measures refer to loss amounts determined to be the consequence of non-compliance. In cases where data is inadequate, qualitative measures had been used.

- **Mitigation and Control.** Based on the identified risks, Senior Management takes corrective actions in order to maintain the level of risk exposures within the tolerance level. Mitigants are in place in order to control the risk exposures.

- **Monitoring.** Senior Management with the assistance of Compliance Group monitors the Bank's exposure to business risks and determines whether the said exposure is still within the level of risk that management is willing to take.

Based on the identified and quantified business risks, the Bank conducted stress testing based on severe but plausible scenarios e.g., non-compliance with all the identified risk events and losing all legal cases filed against the Bank. The Bank assumes a yearly capital charge growth rate of 20%. As of December 31, 2022, Bank's total risk weighted assets for Compliance Risk is Php35.58 Million.

The Board of Directors, Corporate Governance Committee, Business and Service Units, Compliance Unit, Financial Reporting Department and Internal Audit are the stakeholders who have relevant roles in the implementation of market risk management of the Bank.

STRATEGIC RISK

The Bank identified the external risk, disruptions in the economy, as the strategic risk which may hinder the Bank from executing the initiatives set to achieve the financial

The Board of Directors, Senior Management, Risk Management Unit and Internal Audit are the stakeholders who have relevant roles in the implementation of strategic risk management of the Bank.

This procedure assesses and evaluates the impact of economic uncertainties to the Bank's capital adequacy. Advanced quantitative and qualitative techniques are used in the process to identify the risk factors involved and to prepare internal models for the different scenarios and arrive at the required capital level.

The strategic risk management is an integral part in the strategy setting, strategy execution, and strategic management procedures of the Bank to achieve its objectives. Methodologies were put in place for the Bank's risk assessment. In this process, to be able to develop a sufficient model, the Bank needs to identify the hazards and the risk factors that may potentially impact the Bank's capital adequacy. The model covers both the quantitative and qualitative data collection in order to cover the non-quantifiable risk aspects.

A comprehensive review of the forward-looking economic prospects of the international, regional, and domestic financial institutions was made to analyze and evaluate the potential risks associated with the operations of the Bank. This resulted to the identification of key macro-economic variables that was used in the model to test the capital adequacy of the Bank in the different scenarios identified.

The risk assessment methodology provides the Bank initial effective strategic risk mitigation process. Measures of certain financial and non-financial indicators support the Senior Management and RMU in evaluating the Bank's

strategies, either to implement strategic adjustments or put to end to certain strategic initiatives.

As an additional measure, a more extensive channel for risk mitigation has been implemented by the Bank. Every six months or as necessary, the Senior Management together with the Board gets to review the Bank's overall strategy and risk appetite as to their materiality. Collectively, decisions are made relevant to the Bank's financial performance should developments in strategic initiatives are necessary. This meeting is used as a venue to provide a more extensive discussion and decision-making processes where financial metrics are discussed under long-term goal setting. These updates in strategic direction, depending on the management and the Board, may then be affected.

A scenario planning exercise was carried out adapting the macroeconomic risk factors identified in the Risk Assessment process. The historical data of these variables were collected from the earliest to the latest data available. The economic cycles of the Philippines have been tested and measured. Likewise, the global and domestic headwinds that led to the downturns in the economy were identified. The impact of each macroeconomic variable is tested against the bust in the economy, with adjustments due to seasonality.

CAPITAL MANAGEMENT AND ADEQUACY

Below are the risk-based capital components, including regulatory deductions of Legazpi Savings Bank:

Qualifying Capital (in Php Millions)	2022	2021
Tier 1 Capital		
Paid-up Common Stock	1,245.96	1,245.96
Additional Paid-In Capital	-	-
Deposit for Common Stock Subscription	-	-
Retained Earnings	(602.04)	(624.68)
Undivided Profits	23.27	(16.34)
Net Unrealized Gains or Losses on AFS Securities	-	-
Cumulative Foreign Currency Translation	-	-
Others	(6.35)	3.48
Minority Interest	-	-
Less: Regulatory Adjustments		
DOSRI	(0.39)	(0.72)
Deferred Income Tax	(142.69)	(129.03)
Goodwill	-	-
Other Intangible Assets	(2.20)	(2.17)
Investment in Subsidiary	-	-
Total Common Equity Tier 1 Capital	515.55	476.50
Additional Tier 1 Capital	-	-
Instruments issued by the Bank eligible as Capital	-	-
Total Tier 1 Capital	515.55	476.50
Less: Investment in Subsidiary - 50%	-	-
Net Tier 1 Capital	515.55	476.50
Tier 2 Capital		
Redeemable Preferred Stock	-	-
General Loan Loss Provision (GLLP)	11.75	20.56
Unrealized Gain AFS Equity Securities	-	-
Total Tier 2 Capital	11.75	20.56
Less: Investments in equity of unconsolidated subsidiary banks and quasi banks, and other financial allied undertakings - 50%	-	-
Net Tier 2 Capital	11.75	20.56
Total Gross Qualifying Capital	527.29	497.07
Less: Total Investment in Subsidiary	-	-
TOTAL QUALIFYING CAPITAL	527.29	497.07

Risk-based Capital Ratios:

Qualifying Capital (in Php Millions)	2022	2021
Tier 1 Capital	515.55	476.50
Common Equity Tier 1	515.55	476.50
Additional Tier 1 Capital	-	-
Tier 2 Capital	11.75	20.56
Gross Qualifying Capital	527.29	497.07
Less: Required Deductions	-	-
TOTAL GROSS QUALIFYING CAPITAL	527.29	497.07
RISK WEIGHTED ASSETS	3,997.37	2,607.43
Common Equity Tier 1 Ratio	12.90%	18.27%
Capital Conservation Buffer	6.90%	12.27%
Tier 1 Capital Ratio	12.90%	18.27%
Capital Adequacy Ratio	13.19%	19.06%

The capital requirements for Credit, Market and Operational Risks are provide below:

Capital Requirement (RWAs) in Php Millions	2022		2021	
	Risk Weighted Assets	Capital Charge	Risk Weighted Assets	Capital Charge
Credit Risk	3,380.50	338.05	2,053.67	205.37
Market Risk	-	-	-	-
Operational Risk	616.87	61.69	553.76	55.38
Total Capital Requirements	3,997.37	399.74	2,607.43	260.74

CAPITAL MANAGEMENT AND ADEQUACY

CREDIT RISK

The Bank uses the Standardized Approach in computing its exposure to credit risk. Credit Risk-Weighted Asset (CRWA) is an important risk measure of the Bank, primarily because it is used to determine the Bank's minimum capital requirement for credit risk is defined as 10% CRWA. The table below summarizes the result of the risk quantification and capital assessment of the Bank's credit risk using the standardized approach.

Credit Risk-Weighted Assets (in Php Millions)	2022	2021
Credit Risk-Weighted Asset		
Total Risk Weighted On-Balance Sheet Asset	3,380.50	2,053.67
Total Risk Weighted Off-Balance Sheet Asset	-	-
Total Counterparty Risk Weighted Assets in the Trading Book	-	-
Total Gross Risk-Weighted Assets	3,380.50	2,053.67
Deductions:		
General Loan Loss Provisions (in excess of the amount permitted to be included in Upper Tier 2)	-	-
Unbooked Valuation Reserves and Other Capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	-	-
Total Credit Risk-Weighted Assets	3,380.50	2,053.67



Reconciliation between the Philippine Financial Reporting Standards (PFRS) capital under Philippine Regulatory Principles and Qualified for Minimum Adequacy under Basel III are as follows (in Php Millions):

PFRS Capital, 2022	596.73
Difference due to Accounting Principles	64.11
RAP Capital, 2022	660.84
General Loan Loss Provision	11.75
Capital Adjustments	(145.29)
Qualified Capital for Minimum Capital Adequacy Compliance under Basel III	527.29
PER CAR submitted to BSP	527.29

CREDIT RISK WEIGHTED-ASSETS

Risk-Weighted On-Balance Sheet Assets (In Millions)

Item 1	Nature of Item	Exposures net of Specific provisions	Exposure covered by CRM, Gross of materiality threshold	Exposure not covered by CRM	Risk Weights						TOTAL (sum of 4 to 9)
					0%	20%	50%	75%	100%	150%	
A	Cash On Hand	123.61	2	3 = 1-2	4	5	6	7	8	9	123.61
B	Checks and Other Cash Items			0.00							0.00
C	Due from Bangko Sentral ng Pilipinas (BSP), [Sum of C.1 and C.2] 1. Peso denominated exposures 2. Foreign currency denominated exposures 3/ 14/	860.86		860.86	860.86						860.86
		860.86		860.86	860.86						860.86
		108.42		108.42				108.42			108.42
D	Due from Other Banks 15/										
E	Financial Assets Designated at Fair Value through Profit or Loss [Sum of E.1 and E.2] 1. Debt Securities 2. Equity Securities 11/	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		0.00		0.00							0.00
F.	Available-for-Sale (AFS) Financial Assets [Sum of F. and F.2] 1 Debt Securities 11/ 2 Equity Securities 11/										
G	Held-to-Maturity (HTM) Financial Assets [Sum of G.1 and G.2] 1 Non-defaulted Exposures a. Sovereign b. Multilateral Agencies 5/ c. LGU and Public Sector Entities d. Government Corporation e. Banks f. Corporates 2 Defaulted exposures 7/	20.13		20.13	0.00	20.13	0.00		0.00	0.00	20.13
		20.13		20.13	0.00	20.13	0.00		0.00	0.00	20.13
		0.00		0.00	0.00						0.00
				0.00	0.00						0.00
		0.00		0.00	0.00	0.00	0.00		0.00	0.00	0.00
				0.00							0.00
				0.00							0.00
		20.13		20.13		20.13					20.13
				0.00							0.00
		0.00		0.00							0.00
		0.00		0.00							0.00
		0.00		0.00							0.00
H.	Unquoted Debt Securities Classified as Loans [Sum of H.1 and H.2] 1 Non-defaulted Exposures 2 Defaulted exposures 7/	0.00		0.00							0.00
		0.00		0.00							0.00
		0.00		0.00							0.00
I.	Loans and Receivables [Sum of I.1 and I.2] 1 Interbank Loans Receivable 2 Loans and Receivables -Others a. Non-defaulted exposures a.1 Sovereign Exposures a.2 LGUs and Public Sector Entities a.3 Government Corporation a.4 Corporates a.5 Microfinance/Small and Medium Enterprises i. Qualified loans 9/ Performing loans to MSMEs to the extent guaranteed by a qualified Credit surety Fund (CSF) Cooperative, subject to the conditions prescribed under Appendix 63b of the MORB ii. MSME loans (other than those reported under items a.5.i and a.5.ii above) iii. Loans to individuals for Housing Purposes a.6 (includes similar items under DIL) Exposures fully secured by 1st mortgage collateral on residential property that is or will be occupied by the borrower i. Not fully secured by 1st mortgage collateral ii. on residential property a.7 Loans to Individuals i. Agrarian Reform / Other Agricultural Loans DIL -Socialized and Low Cost Housing ii. (Others) Loans to Individuals for Consumption and Other Purposes iii. Other Purposes b. Defaulted exposures 7/ b.1 Housing Loans b.2 Other than Housing Loans	3,088.74	0.59	3,088.15			9.52		3,015.81	62.83	3,088.15
		0.00		0.00							0.00
		3,088.74	0.59	3,088.15			9.52		3,015.81	62.83	3,088.15
		3,022.82	0.59	3,022.23			9.52		3,012.71	0.00	3,022.23
				0.00							0.00
				0.00							0.00
				0.00							0.00
				0.00							0.00
		6.25		6.25			6.25				6.25
				0.00							0.00
		6.25		6.25							0.00
J.	Loans and Receivables Arising from Repurchase Agreements, Certificates of 1 Non-defaulted Exposures a. Sovereign a.1 Resident (PNG and BSP) i. Peso denominated exposures ii. Foreign currency denominated exposures a.2 Non-resident 4/ b. Multilateral Agencies 5/ c. LGU and Public Sector Entities d. Government Corporation e. Banks f. Corporates 2 Defaulted exposures 7/ Sales Contract Receivable (SCR) [Sum of K.1 and K.2] 1 Non-defaulted Exposures 2 Defaulted exposures 8/	3,013.23	0.59	3,012.64					3,012.64		3,012.64
		65.93		65.93					3.10	62.83	65.93
		3.10		3.10					3.10		3.10
		62.83		62.83						62.83	62.83
		277.95		277.95	277.95						277.95
		277.95		277.95	277.95						277.95
		277.95		277.95	277.95						277.95
		277.95		277.95	277.95						277.95
				0.00							0.00
				0.00							0.00
				0.00							0.00
				0.00							0.00
K.	Real and Other Properties Acquired 1 Non-defaulted Exposures 2 Defaulted exposures 8/	8.02		8.02		0.00	0.00		8.02	0.00	8.02
		8.02		8.02					8.02		8.02
		0.00		0.00						0.00	0.00
		96.81		96.81						96.81	96.81
		4,584.56	0.59	4,583.97	1,262.42	20.13	9.52		3,132.26	159.64	4,583.97
		169.06		169.06							
		4,887.16									
		11.75									
		4,584.56									
		0.39									
L.	Total Exposures Excluding Other Assets [Item M, c] a. Total Exposures Excluding Other Assets [Item M, c] b. Financial assets held for trading 13/ c. Derivatives with positive fair value held for trading Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI) total outstanding unsecured loans, direct credit accommodations and guarantees granted to subsidiaries f. Deferred tax assets g. Goodwill [refer to Part II, item A.2 (7)] h. Other intangible assets i. Defined benefit pension fund assets Total Deductions	4,584.56	0.59	4,583.97	1,262.42	20.13	9.52		3,132.26	159.64	4,583.97
		169.06		169.06							
		4,887.16									
		11.75									
		4,584.56									
		4,729.84									
O.	Total exposures, including Other Assets [Sum of M and N]	4,753.62	0.59	4,753.03	1,262.42	20.13	9.52	0.00	3,132.26	159.64	4,583.97
P.	Total Risk-weighted On-Balance Sheet Assets not covered by CRM [O times the applicable risk weight]				0.00	4.03	4.76	0.00	3,132.26	239.47	3,380.50
Q.	Total risk-weighted On-Balance sheet Assets covered by CRM [Part III.1a]				0.00	0.00	0.00		0.00		0.00
R.	TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS (sum of P and Q) (To part III. Item A.1)										
less: Deductions											
General Loan loss provision (in excess of the required amount permitted to be included in Tier 2)											
TOTAL Credit Risk-weighted Assets											3,380.50

Corporate Social Responsibility

ACCOMPLISHMENTS FOR THE YEAR 2022

Successful turnover of Gokongwei Brothers Foundation in partnership with Legazpi Savings Bank donation to Naga National High School

Ink and Printers are now officially used during the post COVID-19 Pandemic-Modular Mode of Learning. At the end of the donation, the parents and teachers exchanged heartfelt words of gratitude, inspiring each other to continue working hard and striving for excellence. The successful turnover ceremony was a joyous occasion, one that encapsulated the spirit of collaboration between parents and teachers, all working together to create a better learning environment for the students.

Arm Chairs for Kid Learners

The school has been blessed to received arm chairs that will help especially the students, to hone their learning. Considering the school is located in a remote island, Gokongwei Brothers Foundation and Legazpi Savings boats its way for benevolently donating of Arm Chairs. GBF and LSB, known for its dedication in promoting education and cultural development, truly recognize the importance of education and the need for high-quality chairs in nurturing intelligence. With this donation, the students are now provided with a more exceptional platform to cultivate their passion for learning. Ms. Christine De Guzman, Brigada Eskwela Coordinator, enthusiastically commented on the

impact of the donation stating, "We are incredibly grateful to LSB for being the light in this remarkable contribution. This gift will undoubtedly be a game-changer for our students. It will elevate their learning experience and comfortably sit during class. We are excited to witness the transformative effect on our students."

Brigada Eskwela 2022 to Marcial O. Rañola National High School

In a significant act of support for education, Gokongwei Brothers Foundation, Gokongwei Group's arm for Building the Future Through Education in partnership with its local business unit here in Albay-Legazpi Savings Bank, Inc. donated arm chairs to MORMS last October 2022. Hence, the donation aims to promote education among students while providing them with comfortable seating arrangements. Thus, the whole MORMS, community wish to express its heartfelt gratitude to our highly respected Gokongwei Brothers Foundation and Legazpi Savings Bank and other significant individuals behind this sustainable donation practice.

School-Based Re-Launching of Kindergarten Story Teller (KIS) Club

Empowering children with the gift of knowledge through reading, Legazpi Savings Bank, Inc. has donated Reading Materials to the students of Cajugutan Elementary School last September 2022. More than the reading materials donations, Guest readers from the bank has shared their time to be part of the school's Brigada Eskwela Campaign. Having a fantastic time in reading, it can help every student

Juan Community, Year 3

Juan Community, launched last 2021, aims to adopt a school and community is now on its year 3! Ligao West Elementary School (Greenfield Extension) Ligao City -the adopted school/community for three (3) years now of Gokongwei Brothers Foundation together with Legazpi Savings Bank has collaborated an effort to donate Ink, Toner and Hygiene kits.

It creates a stepping stone towards a peaceful and cooperative community. An act of kindness shapes the future of our communities, and allows a footstep and lend a helping hand in every way possible.

Brigada Eskwela at Igang Elementary School

The Gokongwei Brothers Foundation (GBF) as support to Brigada Eskwela under the Juan Community Education program, in partnership with Legazpi Savings Bank has donated Bond paper, thermal gun and face mask in Igang Elementary School, Bacacay Albay last June 2022. The Gokongwei Brothers Foundation's commitment in catering to stakeholders through their programs and donations for schools who are in need has never fail in its goal in giving back to the community by building future through reduction.



SUSTAINABILITY HIGHLIGHTS

Sustainability Finance Framework & Environmental and Social Risk Management Framework

Sustainability has become one of the key objectives of enterprises in recent years. It focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. The concept of sustainability is composed of three pillars: economic, environmental, and social— also known informally as profits, planet, and people. Climate change, other environmental and social risks could pose concerns on financial sustainability. As such, the Bank is embedding sustainability principles in its framework and governance consistent with its size, risk profile and complexity of operations.

The Bank developed and established a framework which integrates sustainability considerations and objectives in its strategies, while managing social and environmental risks. The framework is anchored on the Bank's vision, mission, and values — translated into shared success, better choices and responsible business. Under these pillars, policies is developed to identify, assess and control or manage risks in the Bank's business activities — cognizant of sectors or exposures that are more vulnerable to environmental and social risks and impacts.

Legazpi Savings Sustainability Framework

As a subsidiary of Robinsons Bank Corporation (RBank), Legazpi Savings Bank takes its active part within the banking group of the conglomerate to contribute to the financial inclusion financing of the group, particularly focusing on its target sector. Also, part of the Bank's Sustainable Finance Framework is adoption of the Environmental & Social Risk Management System (ESRMS) which is likewise patterned from the parent bank, hinged on LSB's size, risk appetite and business complexity.

The Bank continuously conducts integration and alignment of sustainability principles in its strategic objectives, risk appetite, operations, corporate governance and risk management frameworks. These principles are translated to activities and initiatives undertaken that promotes sustainability and E&S practices in the Bank's processes which we intend to continue and enhance as we comply with the sustainability framework.

Consistent to the conglomerate and parent bank's sustainability initiatives. Legazpi Savings bank recently adopted Sustainable Finance Framework which integrates sustainability objectives and risk appetite in its strategies, focusing on three main areas

Shared Success



The Bank shall continue to grow and enable shared success with our stakeholders. The Bank will put forth a stable performance to be able to continually serve its target market and stakeholders. We will also create bank's product level impact, by offering financial inclusion financing to teachers who mostly need funds to finance their housing and home improvement, education (either themselves or their children), small businesses and other personal consumptions in service areas where LSB operates. In 2022, Legazpi Savings granted loans amounting to Php2,96 Billion to about 12,151 borrowers. The bank was likewise able to promote financial inclusion with the countryside via offering of LSB Simple accounts, which mostly caters to communities under the Sustainable Livelihood Programs (SLP) Associations opened individuals who is part of these associations (formed by farmers and peasants) who entered into an agreement

with DSWD.

The Bank being initially rooted in the provinces of Bicol Region is now far-reaching other provinces nationwide through its online loan processing.

Better Choice



We will optimize our use of natural resources and promote circularity. The bank aims to provide effective client management by promoting customer centric initiatives and providing more value to its customers. Consistent with the goal of the JG conglomerate, we will invest in our people, to thrive in the workplace of the future by providing appropriate pay structure and benefits, meritorious performance evaluations and providing career development and training programs. The bank also fosters a more inclusive working environment. Since the Bank started as a Bicol-based subsidiary of RBank, it has 77% of its employees based in the Bicol Region. However, as it continuous to expand, the bank's personnel sourcing footprints explore other regions and intends to be present nationwide. Given the bank's expansion plans, the Bank employs additional personnel from the Visayas and Mindanao region.

Further, as part of its gender equality considerations, the Bank has a higher female population in its manpower at 59% of its total permanent employees. The bank promotes new ideas and tech savvy generation by having 44% millennials and 35% Gen Z personnel.

TOTAL PERMANENT EMPLOYEE	221
<i>By gender</i>	
Male	89
Female	132
<i>By age group</i>	
Gen Z	78
Millennials	99
Gen X	43
Baby Boomer and Traditionalist	1
<i>By place of Origin</i>	
Bicol Region	172
NCR	11
Luzon outside NCR	32
Visayas	4
Mindanao	2

On resource and impact management, we will optimize our use of natural resources and reduce or offset our carbon emissions by implementing cost savings initiatives thru periodic monitoring of the bank's consumption of water, electricity, fuel and other materials (supplies and paper saves). Our automated processing both on marketing and support units allows a paperless documentation process.

Responsible Business



Our portfolio will continue to drive innovative products and services that improve the quality of life of both our customers and employees. The Bank is actively implementing an agile and innovative processes through digitalization. Since 2019, the bank has adopted a cloud-based core banking system that allows an automated processing of customer information, deposit taking, loan booking and monitoring, general ledger transactions and regulatory reports generation. The said system likewise ensures business

SUSTAINABILITY HIGHLIGHTS

continuity considering the high availability via the cloud-based system.

Likewise, challenges during the pandemic became an opportunity for growth for Legazpi Savings bank. Aligned with Legazpi Savings Bank's digitization transformation, the Bank launched its APDS Online System during 2022. Alongside the web-based approach of teachers applying for a loan, LSB likewise utilized the QR Code technology for the teacher's ease of access to the financial service offered. The initial launch of the APDS Online System brought the teachers loan product of the bank to the client's fingertips by simply using their gadgets or mobile phones to apply for a loan. This allows more flexibility for our clients to transact and avail of our loan products even in their own homes or workplace (schools for our teacher clients).

Further, it was during the 2022 that the bank pursued an automated process of operations by converting most of its manual processing into an in-house supported web-based systems with the objectives of paperless processing and approval. It also initiated to bring the internally developed systems to be hosted in the cloud for better database and back-up management. Similarly, it also promotes agility for our employees who can likewise perform loan evaluation thru work from home arrangements.



Environment & Social (E&S) Risk Management System
Legazpi Savings Bank is cognizant that the effective Environment and Social Risk Management System is essential for its commitment to sustainable practices and long-term viability. By integrating E&S considerations in our operations, we can mitigate risks, protect our reputation, enhance stakeholder trust, and capitalize on emerging opportunities.

During 2022, the board approved our Sustainable Finance framework and Environment & Social Risk Management Framework to identify, assess and mitigate the potential negative impacts in our operations may have on the environment and society. The Board has also approved its corresponding sustainability targets and risk appetite anchored on its focused areas: Shared Success – limiting bank exposures on businesses identified in the IFC Exclusion List, Better Choice – committing to decrease emissions and consumption of resources, and Responsible Business – employing innovative solutions that promotes cost reductions and paperless banking.

Risk Identification and Assessment - The bank to conduct regular environmental impact assessments and social impact assessments to identify potential E&S risks associated with business activities. We shall also engage with our relevant stakeholders, including local communities and regulatory bodies to understand their concerns and gather valuable insights for risk identification. Risk Management Unit implements risk assessment methodologies to evaluate the likelihood and severity of identified risks, considering factors

such as regulatory compliance, community impacts, and environmental footprints.

The Bank has conducted initial assessment of its outstanding portfolio and used the International Finance Corporation (IFC) inclusion and exclusion list in identifying the bank's E&S risk exposures. Further, we are conducting ongoing assessment of our loan portfolio to preclude further exposure to IFC's exclusion list and identify other potential E&S risks.

Risk Mitigation and Control – The bank to develop and implement specific action plans and procedures to mitigate identified risks which may include pollution prevention measures, resource conservation strategies, and employee health and safety programs. The bank shall review its policies to integrate sustainability criteria into supply chain management processes, promoting responsible sourcing, and supplier engagement. It shall also develop and implement specific action plans and procedures to mitigate identified risks, which include pollution prevention measures, resource conservation strategies, and employee health and safety programs. LSB shall likewise establish mechanisms to monitor and control emissions, waste management, and other operational activities that may impact the environment and communities.

The Bank has established its risk limits and targets for its materials, energy and emissions. The Bank likewise implemented several employee health and safety programs and wellness seminar. We are also reviewing our existing outsourcing policies to include sustainability criteria as part of our vendor selection process.

Capacity Building and Training – The bank continuously

provide training and awareness programs to employees on E&S risk management, including topics such as environmental protection, social impact, stakeholder engagement, and regulatory compliance. It shall also continue to foster a culture of sustainability and social responsibility within the organization, encouraging employees to contribute to E&S risk identification and mitigation efforts.

The Bank's Human Resource Management Department (HRMD) continuously offer several trainings that enrich Legazpi Savings personnel learning and development. During 2022, HRMD conducted and initiated 20 training programs for employees.

Stakeholder Engagement – LSB shall develop a stakeholder engagement strategy to actively involve local communities, NGOs, regulatory bodies, and other relevant stakeholders in the E&S risk management process. Continuously engage in dialogue and collaborative initiatives with stakeholders to identify emerging E&S risks, explore opportunities for improvement, and build long-term relationships based on trust and mutual understanding.

The Bank launched several initiatives for our stakeholder engagement. In partnership with the Gokongwei Brothers Foundation, the bank has donated materials used for modular mode of learning, chairs for schools, reading materials and hygiene kits. It has also sponsored and collaborated with schools for Brigada Eskwela activities. Also, embedded in the bank employees' key results areas is their participation to environmental & social responsibility initiatives.

The bank endeavors for continuous improvement,

SUSTAINABILITY HIGHLIGHTS

stakeholder engagement, and transparent reporting to foster sustainable practices and contributing to a better future for all stakeholders involved.

LSB's E&S Risk Exposure Per Industry:

Industry Classification	Percentage	ESR Rating
Accommodation and Food Service Activities	0.10%	Medium
Activities of Extra-Territorial Organization and Bodies	0.01%	Medium
Activities of Households as Employers and Undifferentiated Goods-and-services-Producing Activities of Households for Own Use	91.77%	Medium
Administrative and Support Service Activities	0.02%	Medium
Agriculture, Forestry and Fishing	2.21%	Medium
Arts, Entertainment and Recreation	0.00%	Medium
Construction	0.23%	Medium
Education	0.25%	Low
Electricity, Gas and Water, Steam and Air, Conditioning Supply	0.00%	Medium
Financial and Insurance Activities	0.02%	Medium
Human Health and social Work Activities	0.00%	Low
Information and Communication	0.00%	Medium
Manufacturing	0.03%	Medium
Mining and Quarrying	0.00%	High
Other Services Activities	2.82%	Medium
Professional, Scientific and Technical Activities	0.00%	Medium
Real Estate Activities	0.24%	Medium
Transportation and Storage	0.03%	Low
Water supply, Sewerage, Waste Management and Remediation Activities	0.00%	Medium
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles	2.26%	Medium
Grand Total	100.00%	

Existing and Emerging E&S Risk

Environmental and social (E&S) risks are becoming increasingly significant for banks and financial institutions. Understanding and managing these risks is crucial for maintaining financial stability, protecting the bank's reputation, and ensuring sustainable lending practices. Given that Legazpi Savings Bank focus on lending to teacher's loans and providing deposits to limited branches, the bank recognizes that it is exposed to the following E&S Risk:

Existing E&S Risks

Climate Change and Natural Disasters: Climate change-related events, such as extreme weather conditions, can lead to physical damages, economic disruptions, and increased default risks. The bank may experience a rise in

non-performing loans as borrowers struggle to repay debts due to income loss or property damage caused by climate-related incidents. Since majority of LSB's clients and personnel resides in Bicol region, which is typhoon prone region and also has the most active volcano in the Philippines, the bank is fully aware of these risks and takes this into considerations in its operations, lending practices and business continuity management.

Regulatory Compliance: Banks must comply with evolving regulatory frameworks related to E&S risks. Non-compliance can result in penalties, fines, reputational damage, and restrictions on lending activities, affecting the bank's bottom line and market position. The Bank has established its Sustainability Framework and ESRMS and will continually comply with regulatory standards.

Market Competitiveness: The ability to adapt to emerging E&S risks and meet changing consumer demands for sustainable lending practices can provide a competitive advantage. Banks that fail to address these risks may lose market share to competitors offering more socially responsible products and services. LSB will ensure that its practices and processes are geared towards adapting to emerging E&S risks and makes use of technology to be able to have competitive advantage in its chosen market.

Emerging E&S Risks

Changing Consumer Preferences: Evolving societal values and consumer preferences can significantly impact the bank's portfolios. Banks need to adapt to changing demands for sustainable and socially responsible products, considering the potential shift away from financing environmentally harmful activities or industries that conflict with consumer values. Further, as consumers become more

conscious of sustainability, banks need to assess the ecological footprint of the products they finance and consider potential reputational and regulatory risks associated with environmentally harmful industries. Even when Legazpi savings Bank focus is for the teacher's loan market, the bank still proactively identifies the manner within which the funds were being utilized and ensure that their purpose brings forth sustainable, environment friendly and socially responsible initiatives.

Technological Disruptions: The integration of technology in banking, such as digital lending platforms and artificial intelligence, introduces both opportunities and risks. While technological advancements can enhance operational efficiency, they also require robust cybersecurity measures to protect customer data. Additionally, algorithmic biases and potential job displacements resulting from automation can pose social risks and require careful management. To be able to address these risks, LSB endeavors to use technological advancements to provide meaningful products and services to its clients as a result bring forth cost efficient processes to be able to add more value to its customers. In addition, LSB with the help of its parent bank and the conglomerate continue to equip its manpower and expose them for relevant trainings to be abreast with technology.

Banks must be vigilant in identifying and managing existing and emerging E&S risks. By integrating E&S considerations into their risk management frameworks, Legazpi Savings Bank can mitigate potential credit losses, protect its reputation, ensure compliance with regulations, and align with evolving consumer expectations. Proactive engagement with borrowers, robust data security measures, and a focus on sustainable lending practices will enhance the bank's resilience and contribute to long-term financial viability.

BOARD OF DIRECTORS



(On this page from left to right)
MYKEL D. ABAD - *Director*, ELFREN ANTONIO S. SARTE - *Vice Chairman*, OMAR BYRON T. MIER - *Chairman*,
and ANGELITO V. EVANGELISTA - *Director*.

(On this page from left to right)
HERMOGENES S. ROXAS - *Independent Director*, ROBERTO S. GAERLAN - *Independent Director*,
SALVADOR D. PAPS - *Director*, ANDRO M. YEE - *Director*, and ANGELES Z. LORAYES - *Independent Director*

BOARD OF DIRECTORS PROFILE

Omar Byron T. Mier
Chairman, Filipino
76 years Old



He was appointed as Chairman of the Board of LSB in 2018. He is also a member of its Audit Committee, Corporate Governance Committee, and Risk Management Committee. He was appointed as a Director of the Parent Bank (RB) in 2015. He also serves as an independent director of RCBC Leasing and Finance Corporation (since 2018) and Paymaya Corp. where he also sits as the chairman and member of its Audit Committee and of its Risk and Compliance Committee, respectively, since 2016. Before joining RBC, he holds around four (4) decades of experience in the banking industry, including Citibank N.A., where he served as Country Risk Manager in Manila (1983 to 1985), Public sector Group Head (1985 to 1987), Country Risk Officer in Malaysia (1992 to 1995), Head of Risk Management Group and World Corporate Group Head (1992 to 1995); Deutsche Bank, as Deputy General Manager and Corporate Banking Head (1995 to 2002); and Philippine National Bank (2005 to 2014), where he held various senior positions the last of which as President and Chief Executive Officer (CEO). He has a Bachelor of Science degree In Business Administration Major in Accounting, Bachelor of Arts degree in Economics, and Master of Arts in Economics from University of the Philippines. He is also a Certified Public Accountant. He has been in the service for seven (7) years.

Elfren Antonio S. Sarte
Vice Chairman, Filipino
63 years old



He is the Vice Chairman of the Board and serves as a Resource Person of the Audit Committee, Corporate Governance Committee, and Risk Oversight Committee. He is also the President and CEO of RBC and is a member of its Executive Committee and Risk Management Committee. He is also a Director of the Bank's affiliate, GoTyme Bank Corporation; Chairman of the Board of Directors of Philippine Clearing House Corporation; Chairman of the Board – Unicon Insurance Brokers Corp; and Director of the following companies: Data Exchange, Inc., Bankers Association of the Philippines, BancNet, Inc., Galleria Corporate Center, and Maxicare for less than 1 year. Prior to joining the Bank in November 2014, he was the President, Director and CEO of PNB Savings Bank (2013 to 2014); Consumer Finance Group Head (2013) and Head of Consumer Credit and Collection Division (2010 to 2013) of Philippine National Bank; and Head of Consumer Credit Risk Management Division (2006 to 2010), Credit Services Division (1996 to 2006) and Credit Invest1gat1on and Appraisal Division (1995 to 1996) of Union Bank of the Philippines. He was also a Manager at the Credit Information Bureau (1983 to 1985). He has a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering from the De La Salle University. He has been in the service for eight (8) years.

Mykel D. Abad
President/Director, Filipino
54 years old



He is the President and Director of the Bank and member of the IT Steering Committee. He is also the Executive Vice President of RBC. Prior to becoming LSB's President, he has held senior management positions in UCPB, International Bank Exchange, and Robinsons Savings Bank. He finished his Bachelor of Science degree in Statistics from the University of the Philippines and he has a Masters degree in Applied Business Economics from the University of Asia and the Pacific. He has attended numerous trainings abroad such as the Youth Marketing Seminar conducted in Kuala Lumpur Malaysia and ICMP Master Class and Asset Liability Management seminars, both of which were conducted in Singapore. He also underwent extensive trainings on Anti-money Laundering, Corporate Governance, Treasury Operations and Risk Management. He has also completed the Executive Development Program of JG Summit, conducted by visiting professors from Harvard and INSEAD among others. He has been in the service for ten (10) years.

Angelito V. Evangelista
Director, Filipino
70 years old



He is a member of the Bank's Audit Committee, Corporate Governance Committee, Risk Management Committee and IT Steering Committee. He was RBC's Chief Operating Officer until September 30, 2019. Currently, he is a consultant of RBC. He has been in the banking industry for more than forty-five (45) years. He started his career with Bank of Asia which later became Insular Bank of Asia and America (IBAA) and has held senior management positions in PCIBANK and PCI Savings Bank. He was part of the original team that organized Robinsons Savings Bank Corporation in 1997. He was a former Independent Director of Meycauayan College and was previously a Director of Bancnet. He graduated from the University of the East where he earned his Bachelor of Science degree In Business Administration. Major in Accounting. He also has a Masters degree in Business Administration from the University of the Philippines Diliman. Over the years, he has attended numerous trainings and seminars conducted in the Philippines and abroad such as the ATM Debit & Prepaid Forum held in Las Vegas, Nevada, U.S.A. and the Bank Administration Institute's (BAI) Retail Delivery Conference in Boston, Massachusetts, U.S.A. among others. He is also a Certified Public Accountant. He has been in the service for ten (10) years.

BOARD OF DIRECTORS PROFILE

Andro M. Yee
Director, Filipino
58 years old



He is RBC's Executive Vice President and Chief Financial Officer. He joined RBC in 1997 and became the Bank's Compliance Officer (concurrent Chief Audit Executive) (1997-2009), Chief Audit Executive (2009-2010), and Controller (2010-2013). He also sat as a Director of Bancnet, Inc. (2009-2011). He was also the head of the Bank's Community Banking Group (2013-2018) that spearheaded RBC's effort to offer financially inclusive products (i.e., Microfinance and Motorcycle Loans) to the unbanked and underbanked sector of the society in the country. Over the years, he has had numerous trainings and seminars on anti-money laundering, compliance, corporate governance, internal auditing, trust operations and investment management, IT security, corporate fraud control, and risk-based audit. He earned his Bachelor of Science degree in Business Administration Major in Accounting, from the University of the Philippines in the Visayas. He is also a Certified Public Accountant. He has been in the service for three (3) years.



Hermogenes S. Roxas
Independent Director, Filipino
71 years old

He is one of the Independent Directors of the Bank and is the Chairman of the Audit Committee, Vice Chairman of the Corporate Governance Committee, and member of the Risk Management Committee. He is also a Director of RBC, Vice-Chairman of RBC's IT Steering Committee and RPT Committee. He has more than three (3) decades of experience in banking and has held various senior positions at Commercial Bank & Trust Company and United Coconut Planters Bank and its subsidiaries. He was also the President and Director of UCPB Savings Bank; a Director at UCPB Leasing & Finance Corp., UCPB Foreign Exchange Corp., UCPB Capital, Corp. UCPB Rural Bank, and UCPB Securities Inc. He has a Bachelor of Science degree in Business Administration from the University of the Philippines. He has been in the service for eight (8) years.

Salvador D. Paps
Director, Filipino
59 years old



He was appointed as one of the members of LSB's Board of Directors in April 2022 and is one of the resource persons of the Risk Management Committee. He is also the Executive Vice President and Retail Banking Segment Head of RBC. Before joining RBC in 2002, he worked and held various positions from ABN-AMRO Savings Bank, BA Savings Bank, Solidbank Corporation, Banco De Oro and Equitable Banking Corporation. He has a Bachelor of Arts in Economics degree from San Beda College.



MS. ANGELES Z. LORAYES
Independent Director, Filipino
73 years old

She is one of the Independent Directors of the Bank, Chairperson of the Risk Management Committee, Chairperson of IT Steering Committee, Vice Chairperson of the Audit Committee and member of the Corporate Governance Committee. She is also an Independent Director of RL Property Management Inc. (starting Oct. 2021) and Unicon (starting Aug. 2021). She was an Independent Director of Robinsons Bank Corporation (2012-2021), Head of Credit Policy Division of Philippine National Bank (PNB) (2005-2010) and Equitable PCI Bank (1978-2000). She honed her skills in banking by spending her career in Citibank as Head of its Financial Analysis and Engineering Department (1971 to 1978). She has a degree in Business Administration from the University of the Philippines and earned MBA units at the Ateneo Graduate School of Business.

BOARD OF DIRECTORS PROFILE

Roberto S. Gaerlan
Independent Director, Filipino
70 years old



He is one of the Independent Directors of the Bank and is a member of its Audit Committee; Chairman of its Corporate Governance Committee and Vice Chairman of its Risk Management Committee. He was an Independent Director of RBC (2013 - 2020), Chairman of its Risk Oversight Committee and Vice-Chairman of its Corporate Governance Committee. His career in banking spans over three (3) decades, working with First United Bank (1973 to 1979) and with United Coconut Planters Bank (1979 to 2003) where he was the Vice President for Branch Banking (2001 to 2003). He has a Bachelor of Arts degree in Economics from the University of Santo Tomas and Advanced Bank Management from the Asian Institute of Management. He has been in the service for four (4) years.

EXECUTIVE OFFICERS

ERLINDA O. DEL VILLAR
Operations Head
53 years old



She is currently the Head of Operations which handles the following units/departments:

- (1) Controllership Department
- (2) Loans & Discount Unit
- (3) Operations and Branch Support Department

She is a member of the Management Committee (MANCOM), Acquired Assets and Disposal Committee, ALCO, AMLC, Bid Committee, CEC, PERCOM and ITSC .

She joined the Bank in 1998 as Control Officer and climbed the corporate ladder to Supervising Accountant. Controller and as Operations Head. Prior to joining LSB she worked at Westbank as Branch Accountant.

She graduated with a Degree of Bachelor of Science in Business Administration Major in Accounting from Aquinas University of Legazpi now University of Sto Tomas Legazpi. Magna Cum Laude She is also a Certified Public Accountant.

VICTOR C. DELA CRUZ, JR.
Retail Banking Group Head
56 years old



Currently the Lending Group Head of Legazpi Savings Bank (LSB) since July 2019. He is a member of the following committee:

- (1) Credit Committee
- (2) Executive Committee

Prior to his stint as Lending Group Head of LSB. He worked as Account Officer of Union Bank of the Philippines from 1996 to 1999 under the Commercial Loans Department. Occupied various position with United Coconut Planters Bank (UCPB). Relationship Manager from 2006 to 2013 under the Corporate and Commercial Banking Group. In 2013. He became the Head of Small Business Luan Department untie! the Consumer Banking Group until 2015 He organized and became the Department Head of Metro Manila Business Center Department from 2015 to 2016. Head of Consumer Finance Business Center from January 2017 to 2018, where he was awarded as the "Department Head of the Year 2017". also under the Consumer Banking Group. Started his career at The Philippine Banking Corporation in 1989 as Account Assistant. He has a Bachelor of Arts Degree In Economics from San Sebastian College-Recoletos, Manila. Born on October 28, 1966, in Quezon City.

KAREEN R. VILLAREAL
Chief Risk Officer
49 years old



Bringing with her a total of 19 years banking experience, Ms. Villareal is the current Chief Risk Officer of Legazpi Savings Bank, seconded from the parent bank, Robinsons Bank Corporation. Upon Robinsons Bank Corporation's acquisition of Legazpi Savings Bank, she held the posisiton of Chief Compliance Officer until her assignment to Risk Management last 2021.

Also, prior to her secondment to LSB, she held the position of being the RBC Internal Audit Department Executive Officer Audit Section Head and Fraud Audit Section Head.

She is a member of the following Committees, on an advisory capacity, MANCOM, IT Steering Committee, Operations Committee, and the PERCOM.

She is a graduate of BS Accountancy at Polytechnic University of the Philippines (in Sta.Mesa) and a Certified Public Accountant.

JASON-DENNIS R. SAMBITAN
IT DEPARTMENT HEAD
47 years old



Mr. Sambitan is currently the Information Technology Head of the Bank for nine(9) years and manages the bank's core banking system, automation of the loan processing and approval and the web-based systems of the bank.

He is a member of the Mancom and the IT Steering Committee. He started his career with Legazpi Savings Bank in 1996, holding various Branch Operations function until he was assigned to lead the IT Department upon acquisition of RBC in 2012.

He is a graduate of Divine Word College of Legazpi and took up Bachelor of Science in Accountancy.

EXECUTIVE OFFICERS

ADRIAN T. LLANA
Credit Cycle Department Head
46 years old



He is currently the Head of Credit Cycle Department which consists of the following Units:

- 1) Billing and Monitoring Unit;
- 2) APDS Credit Lending Unit and;
- 3) ROPA and Collection Unit

He has been with the Bank since 1997 and rose from the ranks. Started as a Loans Clerk for two (2) years and became an MDP Trainee from 2000 to 2001 and after passing the MDP, he was then promoted as Loans Officer, Manager, Acting Credit Cycle Head and now as Credit Cycle Department Head. Also, an awardee as "Best Support Officer".

He graduated with a Degree of Bachelor of Science in Business Administration major in Management from Bicol University College of Arts and Sciences (BUCAS) now College of Business, Economics, and Management (BUCBEM).

ABUNDIO B. BLANQUISCO, JR.
Operations and Branch
Support Department Head
51 years old



He currently leads the company's Branch and Administration Operations Department which oversees the branch operations, branch expansion, general services, and operations pool.

He is a member of MANCOM, AMLC, Acquired Asset Disposal Committee, Bid and Award Committee, and Operations Committee.

He started his career with Legazpi Savings Bank in 1998 as Auditing Clerk. After finishing the Management Development Program in 1999, he assumed various positions in the bank. Due to his unwavering dedication to work, he became the Manager of LSB Virac Branch for thirteen years, from 2002 until 2015, where he was transferred to the Head Office.

He has a Bachelor's degree of Science in Commerce major in Accounting from Daniel B. Peña Memorial College Foundation in 1993.

KEY OFFICERS



ERLINDA O. DEL VILLAR
OPERATIONS HEAD



VICTOR C. DELA CRUZ, JR.
RETAIL BANKING GROUP HEAD



KAREEN R. VILLAREAL
CHIEF RISK OFFICER



JASON-DENNIS R. SAMBITAN
IT DEPARTMENT HEAD

KEY OFFICERS



ADRIAN T. LLANA
CREDIT CYCLE DEPARTMENT HEAD



ABUNDIO B. BLANQUISCO, JR.
BRANCH OPERATIONS AND ADMIN HEAD



ROMEL D. MENIADO
CHIEF COMPLIANCE OFFICER



ATTY. ROEL S. COSTUNA
LEGAL UNIT HEAD AND CORPORATE SECRETARY

KEY OFFICERS



ATTY. AILEEN MARY C. EJERCITO
ASSISTANT CORPORATE SECRETARY



VINALYN A. BARNEDO
HUMAN RESOURCE MANAGEMENT DEPARTMENT HEAD



CYNTHIA C. BAUTISTA
CHIEF AUDIT OFFICER



COL. NICOLAS R. SUEMITH
SECURITY OFFICER SECURITY OFFICER

KEY OFFICERS



CARMELA MONICA C. BORROMEО
CONTROLLER



ELEANOR LENI M. ANTE
TREASURER



REAN O. APDUA
BRANCH BANKING DEPARTMENT HEAD

CORPORATE GOVERNANCE

BOARD GOVERNANCE

The Board of Directors of the Bank ensures to continuously improve its shareholders value and achieve a successful and long-term business. The Board is actively responsible to ensure that the Bank is properly governed and managed to attain its business goals and objectives. It also has the responsibility to its customers, employees, government and the depositing public, in general.

The Board is primarily responsible for the governance, including business and risk strategies, organization, and financial soundness of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on and effective oversight of Management.

Composition of the Board

As provided in the Bank's By-Laws, the Board is composed of nine (9) members elected by the stockholders, three (3) of whom are independent. All members of the Board are Filipinos and possess all the qualifications and none of the disqualifications to hold directorship as prescribed under the Corporation Code and existing rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). They all passed the fit and proper test for the position of a director of the Bank taking into account their integrity/ probity, physical/ mental fitness; possession of competence relevant to the job such as knowledge and experience, skills, diligence and independence of mind; sufficiency of time to fully carry out responsibilities; and concurrent positions in the banking group and interlocking positions in other entities that may pose conflict of interest. They are known for their independence and professionalism, and make decisions with complete fidelity to the Bank while cognizant of their

responsibilities under existing applicable laws, rules and regulations.

The Board determines the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank's operations. To the extent practicable, the members of the Board of Directors have been selected from a broad pool of qualified candidates. With this respect, the Board is composed of non-executive directors (including the Chairman), executive directors and independent directors.

The Chairman of the Board holds the authority on the Board and provides leadership to the entire organization. He ensures that the Bank's duties to shareholders are being fulfilled by acting as a link between the Board and Management. He also ensures that the meetings of the Board are held in accordance with the by-laws, makes certain that the meeting agenda focus on the strategic matters including the overall risk appetite of the Bank.

The Board has sufficient number of qualified non-executive directors who have been elected to promote independence of the Board from the views of the Senior Management. These are those who are not part of the day-to-day management of operations of the Bank. On the other hand, elected executive directors are those who are part of senior management and involved in the day-to-day operations of the Bank.

The Board also has three (3) independent directors who are independent of Management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibilities as

a director. They hold no interests or relationships with the Bank that may hinder their independence from the bank or Management or will interfere with the exercise or independent judgment in fulfilling their responsibilities. They comply with all the qualifications required of an independent director and none of the disqualifications as provided in the BSP's Manual of Regulations for Banks.

An independent director only serves for a maximum nine (9) years and will be barred perpetually to become as such thereafter. However, they are not precluded to sit as regular directors.

In 2022, there was one new elected executive director to replacing another executive director.

BOARD MEETINGS AND CORPORATE SECRETARY

The Corporate Secretary assists the Board in its duties and responsibilities primarily to the corporation and its shareholders. In the conduct of board meetings, the Corporate Secretary provides directors the notice, agenda and meeting materials prior to each meeting. Proceedings of the meetings are property documented and duly minuted.

As provided for in the Bank's By-laws, the Board schedules and holds regular monthly meetings and convenes special meetings, when necessary. The members of the Board attend regular and/or special meetings in person or through teleconferencing and video conferencing which allows the directors to actively participate in the deliberations on matters taken up therein. The Bank ensures availability of teleconferencing facilities if and when a director cannot physically attend due to unavoidable circumstances, the director may also attend the meetings by submitting written comments on the agenda to the Corporate Secretary and the

Chairman prior to the meeting.

In 2022, all members of the Board have substantially complied with the attendance requirement and actively participated in the deliberations on matters taken up during the regular and/or special meetings.

Board of Directors	Number of Meetings Held	Number of Meetings Attended
Omar Byron T. Mier	12	12
Elfren Antonio S. Sarte	12	10
Mykel D. Abad	12	12
Angelito V. Evangelista	12	12
Eric B. Santos (Last attendance was March 2022)	12	3
Salvador D. Paps (1 st BOD attendance was April 20, 2022)	12	9
Andro M. Yee	12	10
Angeles Z. Lorayes	12	12
Hermogenes S. Roxas	12	12
Roberto S. Gaerlan	12	12

BOARD COMMITTEES

To allow deeper focus and increase efficiency, the Board has created committees. which are relative and consistent to the size, complexity of operations, long-term strategies and risk tolerance level of the Bank. The scope, authority and responsibilities of these committees are defined in their respective board-approved charter which is subject to regular review and updated at least annually or whenever there are significant changes.

The board has appointed the members of the committees taking into account the optimal mix of skills and experience which allow them to fully understand, be critical and objectively evaluate the issues. To promote objectivity, the Board has appointed independent directors and non-executive directors to the greatest extent possible and ensures that such mix will not impair the collective skills, experience and effectiveness of the committees. Each of these committees maintains appropriate records (e.g.,

CORPORATE GOVERNANCE

minutes of meeting) of their deliberations and decisions, subject to notation and/or confirmation of the Board. The records document the committees' fulfillment of their responsibilities and facilitate the assessment of the effective performance of their functions which is regularly and periodically being conducted.

The Board has established and designated responsibilities to the following board-level committees:

CORPORATE GOVERNANCE COMMITTEE

In order to pro-actively assist the Board in its fulfillment of its corporate governance responsibilities and ensure transparency in all of the Bank's transactions, it created the Corporate Governance Committee. The Committee ensures the Board's effectiveness and due observance of corporate governance principles, best practices and guidelines which are necessary component of what constitutes sound strategic business management. It creates awareness of corporate governance within the Bank.

In particular, the Committee oversees the development and implementation of corporate governance principles and policies; reviews and evaluates the qualifications of the persons nominated to the Board as well as those nominated for election to other positions requiring appointment by the Board; decides the manner by which the Board's performance is evaluated and assists the Board in the periodic performance evaluation of the Board and its committees and executive management; and oversees the development and implementation of professional development programs for directors and officers.

The Committee is composed of five members, three of whom are independent directors including the Chairperson and

Vice-Chairperson. The Committee holds regular meetings and may call for special meetings as deemed necessary. To properly evaluate its performance, the Committee meetings are properly and duly minuted.

Name	Number of	Number of
Omar Byron T. Mier	12	12
Angeles Z. Lorayes	12	12
Roberto S. Gaerlan	12	12
Hermogenes S. Roxas	12	12

RISK OVERSIGHT COMMITTEE

To aid the Board to efficiently carry out its functions on risk management, it created the Risk Oversight Committee which oversees the development and oversight of the Bank's risk management program and ensures an acceptable level of risk while minimizing losses. The Committee oversees the system of limits to discretionary authority that the Board delegates to Management, supervises the system and ensures its effectiveness, provides and set limits and ensures that these are properly observed and that immediate corrective actions are taken should breaches occur.

"The Risk Oversight Committee which oversees the development and oversight of the Bank's risk management program and ensures an acceptable level of risk while minimizing losses."

The Board has appointed five members of the Committee who possess a broad-range of expertise as well as adequate knowledge of the Bank's risk exposures which enable them to develop appropriate strategies for preventing losses when they occur. The committee members meet regularly and may call for special meetings whenever necessary.

Name	Number of	Number of
Angeles Z. Lorayes	12	12
Omar Byron T. Mier	12	12
Elfren Antonio S. Sarte	12	11
Roberto S. Gaerlan	12	12
Hermogenes S. Roxas	12	12
Mr. Mykel D. Abad	12	11
Angelito V. Evangelista	12	12
Eric B. Santos (Jan-Mar 2022)	12	3
Salvador D. Paps (Apr-Dec 2022)	12	8

AUDIT COMMITTEE

The Board has constituted an Audit Committee to provide oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. In particular, the Committee aids the Board in monitoring and evaluating the adequacy, effectiveness and efficiency of the Bank's internal control system. Further, the Committee assists the Board in fulfilling its oversight responsibilities with regard to integrity of the Bank's financial reporting process; the independence and performance of the Bank's external and internal auditors; the compliance of corporate governance policies and guidelines; and the Bank's compliance with regulatory requirements.

"The Board has constituted an Audit Committee to provide oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. In particular, the Committee aids the Board in monitoring and evaluating the adequacy, effectiveness and efficiency of the Bank's internal control system."

To carry-out its mandate, the Committee has explicit authority to any matter within its terms of reference, full access to and cooperation by Management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to

effectively discharge its functions.

As prescribed under existing rules and regulations, the Committee is composed of to the greatest extent possible, sufficient number of independent and non-executive board members. All members of Committee, including the Chairperson who is an independent director, possess the required qualifications and none of the disqualifications. The Committee holds regular meetings and may call special meetings upon the request of the Chairperson or by at least two (2) of its members, which proceedings are duly minuted.

Name	Number of	Number of
Hermogenes S. Roxas	9	9
Omar Byron T. Mier	9	9
Angelito V. Evangelista	9	9
Angeles Z. Lorayes	9	9
Roberto S. Gaerlan	9	9

INFORMATION TECHNOLOGY STEERING COMMITTEE

In compliance with BSP regulations. the Board has created the Information Technology (IT) Steering Committee which oversees a safe, sound, controlled and efficient information technology operating environment that supports the Bank's goals and objectives. In particular, the Committee among others: reviews and monitors the performance all IT projects; reviews the Bank's current IT infrastructure, system performance, associated risks and other significant issues and events, and institutes appropriate actions to achieve the desired results; monitors and evaluate the performance of third-party service providers on all technology initiatives subject of the service contract; and reports to the Board relevant and adequate information regarding IT performance, status of major IT projects and significant issues affecting the Bank's IT operations.

"The Committee among others: reviews and monitors the

CORPORATE GOVERNANCE

performance all IT projects; reviews the Bank's current IT infrastructure, system performance"

The Committee is chaired by an independent director, assisted by the Head of IT Department and executive officers of the Bank. The heads of Audit, Risk and Compliance are also invited in the regular and/or special meetings of the Committee as resource persons.

Name	Number of	Number of
Angeles Z. Lorayes	12	12
Mykel D. Abad	12	12
Angelito V. Evangelista	12	12
Romel D. Meniado	12	12
Erlinda O. Del Villar	12	12
Adrian T. Llana	12	12
Jason Dennis R. Sambitan	12	12
Kareen R. Villareal	12	12
Cynthia C. Bautista	12	12

BOARD TRAININGS

In accordance with the Corporate Governance Manual and existing BSP regulations, the Corporate Governance Committee is responsible for making recommendations to the Board on the required trainings and continuing education of the directors. Relative thereto, all members of the Board have attended the required corporate governance seminar for bank directors at BSP-accredited training providers, a pre-requisite for Monetary Board confirmation. These include topics on risk and governance, audit and control, and accountability.

To remain relevant and abreast with the evolving corporate governance landscape, the directors attend refresher courses on corporate governance provided by accredited training service providers.

Committed to providing continuing professional education and ensuring that senior management continuously possess

the qualifications for their positions, LSB provides seminars and trainings given by accredited external training providers and training provided in coordination with the Parent Bank and/or JG Summit Human Resource. These are, but not limited to, trainings and seminars on governance, leadership, risk management, accounting, compliance and AMLA.

SELECTION PROCESS FOR BOARD AND SENIOR MANAGEMENT

Every year, the Bank holds stockholders meeting where new sets of board of directors are being elected. The Bank has transparent procedures in place for the nomination and election of the new sets of directors to the Board. Shareholders nominate candidates who shall be evaluated based on qualifications and none of the disqualifications per existing BSP and SEC regulations and a pool of candidates is formed. Nine (9) will be elected from the pool of candidates.

During the organizational meeting, chairmanship and membership of the different board-level committees, including principal officers are appointed.

Candidates for Senior Management positions are carefully screened based on their qualifications and are subjected to the fit-and-proper rule test. Appointment of Senior officers are submitted for approval of the Corporate Governance Committee and confirmation of the Board of Directors. For positions that needs regulatory approval/ confirmation, appropriate request for approval/confirmation of the Bangko Sentral ng Pilipinas is also sought.

PERFORMANCE EVALUATION

The Bank has performance evaluation process in place to

assess the performance of the Board and its board-level committees based on their respective mandates. This is through a Peer Assessment Questionnaire. Similarly, the President is evaluated as a member of the Board and Senior Management, the results of which is discussed and approved by the Corporate Governance Committee confirmed by the Board.

COMPENSATION POLICY

The Board of Directors compensation is a fee or per diem in an amount as may be determined by the Board which shall be paid to each director for attendance to any meeting of the Board, subject to the approval of the stockholders; provided, however, that nothing herein contained shall be construed to preclude any directors from serving in any capacity and receiving compensation therefor. The Board, as may delegated by the stockholder, shall fix the compensation and other-remunerations. Pursuant to a delegated authority, the Board may fix the compensation and other remuneration of any Director of any other officer of the Bank should they be designated to perform executive functions or any special service to the Bank. In no case shall the total yearly compensation of directors as such directors, exceed ten percent: (10%) of the net income before income tax of the Bank during the preceding year.

The Bank's Senior Management and Key Executive remuneration program encourage the attraction and retention of high caliber professionals possessing the required experience and capabilities to drive the success of the business. The compensation structure is designed to be at par with the prevailing savings banking industry rates. Consistent with the Bank's principle of pay for performance and Remuneration Policy, the Board approved compensation and BSP approved fringe benefit program consists of car

plan, various types of leave benefits, allowances and financial assistance in the form of employee loans are provided to rank and file, junior officers, Senior Management and Key Executives. The health and well-being of a regular rank and file employees up to senior management and executives are likewise given importance as their Group Hospitalization Plan/ Health Management Organization (HMO) provides extensive Executive Check-up Package.

Granting of compensation agreements/ offers, recommendations for annual merit increases and promotion increases, variable bonuses are approved by the Chairman of the Board.

RENUMERATION POLICY FOR EMPLOYEES

The Bank's employee's compensation structure is designed to be at par with the prevailing banking industry rates. The compensation package is composed of guaranteed compensation, inclusive of statutory and company-initiated bonuses. Its policy is pay for performance or meritocracy, highlighted by a competitive salary scale, annual merit increase, and employee promotion which are hinged on employee performance and attainment of the Bank's Key indicator. Competitive fringe benefit programs such as various types of leave benefits, uniform assistance, and financial assistance programs in the form of employee bereavement assistance, personal loan, motorcycle loan, car plan loan. and housing loan are provided to eligible employees aimed to assist them in their time of financial need and to improve their standard of living. The health and well-being of the employees are given importance in the form of Group Hospitalization Plan or HMO Card, the Group Life Insurance and Personal Accident Insurance and Hazard Pay.

"The compensation package is composed of guaranteed

CORPORATE GOVERNANCE

RETIREMENT AND SUCCESSION POLICY

Except for independent directors who are subject to maximum term limit to remain so, directors may remain on the Board for as long as he/ she remains to be physically and mentally fit and proper for the position of a director, able to discharge his duties pursuant to regulatory requirements for banks. For succession, replacement, or vacancy, the Bank's by-Laws provide that vacancies in the Board may be filled by appointment or election of the remaining directors, if still constituting a quorum; otherwise, the stockholders shall fill such vacancy in a regular meeting called for this purpose.

Members of the Senior Management are covered by the rank's Multi-employer Retirement Plan under its parent company JG Summit; it is a non-contributory defined benefit plan covering all regular and permanent employees of the conglomerate. The Retirement Plan covers early or optional retirement, compulsory retirement as well resignation payment schemes for qualified employees based on set criteria.

The Bank has a Succession Management Program for Senior Management whereby high potential candidates from critical functions were identified by the incumbent officers and, in coordination with the Human Resources Management Department, came up with an Individual JGS Advancement Planning Process to prepare such candidate to take on the critical positions in case of vacancies. The development plan is updated annually.

RELATED PARTY TRANSACTIONS

In compliance with BSP Circular 895, as amended, all material related party transactions are being approved by the Bank's Board of Directors. With this respect, the Bank did not create a separate RPT Committee. Nevertheless, it

has RPT policy which defines related parties which include directors, officers, stockholders or related interests (DOSRI) of the Bank and their close family members. It also includes corresponding persons in affiliated companies, subsidiaries and affiliates, any party that the Bank exerts control over or that exerts control over the Bank, and such other entity whose interest may pose potential conflict with the interest of the Bank.

The Board evaluates material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, rates, fees, tenor, collateral requirement) to such related parties that similar- transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as result of or in connection with the transactions. Refer to the Notes to Financial Statements for the Bank's related party transactions.

SELF-ASSESSMENT FUNCTIONS:

COMPLIANCE SYSTEM

The BSP issued Circular No. 747 – Revised Compliance Framework for Banks as amended by Circular No. 972, in order to actively promote the safety and soundness of the Philippine Banking System through an enabling policy and oversight environment. Such environment is governed by the high standards and accepted practices of good corporate governance as collectively designed by the BSP and its supervised institutions. Toward this end, a robust, dynamically responsive and distinctly appropriate Compliance Risk Management System has been put in place as an integral component of the Bank's culture and risk governance framework. In this respect, it is the responsibility and shared accountability of all personnel, officers, and the Board of

Directors.

"Toward this end, a robust, dynamically responsive and distinctly appropriate Compliance Risk Management System has been put in place as an integral component of the Bank's culture and risk governance framework."

Part of the Compliance Risk Management System is the Bank's strong compliance infrastructure. The Board of Directors, through the Corporate Governance Committee, exercises oversight implementation of compliance policy, ensuring policies and procedures are followed and corrective actions are taken by the management to address breaches, failures and control deficiencies identified. In its effort to address compliance risk effectively, the Board established the Compliance function and appointed a Chief Compliance Officer who is the lead operating officer on compliance.

The Senior Management sees to it that applicable law and regulations are complied with and, through the Chief Compliance Officer, render periodic reporting of compliance issues that the Bank is beset with. As Bank employee, everyone should conduct business activities in adherence to high standards of honesty and integrity and shall abide by the laws, regulations, rules, standards and codes of conduct and good governance applicable to our banking activities. This may cover observing market rules, managing conflict of interest, proper accounting and recording, applying best practices, compliance with tax laws, developing new products and electronic delivery channels, providing e-banking services and may also include special areas such as prevention of money laundering and terrorist and proliferation financing.

The Bank's Compliance Risk Management System is

anchored on a program that ensures proper dissemination of laws, rules and regulations, self-assessment of compliance therewith, validation of self-assessment and monitoring to ensure that all are compliant therewith. The Compliance Unit disseminate laws, rules and regulations, including revisions or updates thereon, which affecting the different operational areas of the Bank. The different business units conduct periodic self-assessment of its compliance with relevant laws, rules and regulations through the Compliance Self-Assessment Checklist. Results of the self-assessment shall then be validated by an independent testing conducted by the Compliance Unit. Any exceptions found in the self-assessment as well as the independent testing are then reported to the Corporate Governance Committee and the outstanding findings are subjected to close monitoring to ensure these are properly addressed. The compliance program is subject for review and revision as may be necessary to be updated with new issuances and depending on its effectiveness to achieving excellent compliance and monitoring risks.

MONEY LAUNDERING AND TERRORIST FINANCING PREVENTION PROGRAM

As approved by the Board and required by the Bangko Sentral ng Pilipinas (BSP) and consistent with the Parent Bank, the Bank is implementing a program to combat money laundering, terrorist and proliferation financing. The Program has been issued and regularly being updated to comply with Republic Act No. 9160 also known as the "Anti-Money Laundering Act of 2001", its Implementing Rules and Regulations, BSP Circular No. 1022 and regulatory Issuances of the Anti-Money Laundering Council. The Program is intended to protect the integrity and confidentiality of the accounts of the clients, and ensure that the Bank is not used to launder illicit proceeds or to raise or

CORPORATE GOVERNANCE

move funds in support of terrorism taking into consideration best practices to combat terrorist financing.

The Program has been developed to disseminate information which will help the employees understand money laundering activities and their prevention, detection and report suspicious transactions, know better the Bank's customers; understand the penalties for non-compliance; conduct the required AML training for responsible officers and personnel of the Bank; satisfy legal and ethical responsibilities with a minimal adverse impact on the Bank's overall daily business responsibilities and performance goals. Moreover, the Program has been promulgated to protect the Bank as well as its employee's interests.

Laws governing secrecy or bank deposits have been strictly being complied with by the Bank when implementing procedures related to combating money laundering, and terrorist and proliferation financing. The Program provides guidance in complying with the Anti-Money Laundering Law as well as other applicable regulations without violating relevant and without losing or clients in the process.

INTERNAL CONTROL AND AUDIT

The Bank has implemented its internal control processes which are designed and effected by its Board of Directors, Senior Management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations: reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements and the Bank's policies and procedures.

The Bank put in place adequate and effective internal control framework for the conduct of its business taking into account

the size, risk profile and complexity of operations. The framework embodies management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

"The Bank put in place adequate and effective internal control framework for the conduct of its business taking into account the size, risk profile and complexity of operations."

The control environment of the Bank consists of: (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) Management that actively manages and operates the Bank in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management support systems; and (d) an independent audit mechanism to monitor the accuracy and effectiveness of the Bank's governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

The Bank has an internal audit system that reasonably assures the Board, Management and stockholders that the Bank's key organizational and operational controls are faithfully complied with. The Board appointed an Internal Auditor to perform the function, and required the Auditor to report to the Audit Committee, a board-level committee, which allows the internal audit activity to fulfill its mandate. The Internal Auditor is being guided by the International Standards on Professional Practice of Internal Auditing and existing laws, rules and regulations. With the Board appointment, the Chief Audit Officer (CAO) oversees the

the implementation of the internal audit system. Currently, the CAO has been appointed as the concurrent Head of Audit of the parent bank.

OTHER GOVERNANCE POLICIES

CORPORATE GOVERNANCE MANUAL

Consistent with the Parent Bank, the Board adopted corporate governance framework or the Corporate Governance Manual (or "Manual") that embodies the roles, systems and processes in the Bank. The framework governs the performance of the Board and Management of their respective duties and responsibilities to stockholders and other stakeholders. The Manual is being periodically reviewed with the objective of continually aligning the Bank's policies with the BSP and SEC circulars or issuances on corporate governance including best practices issued by the Basel Committee on Banking Supervision. This ensures that the interests of stockholders and other stakeholders are always taken into account, the directors, officers, and employees are aware of their responsibilities and the business of the Bank is conducted in a safe and sound manner.

CODE OF CONDUCT

Similar to the Parent Bank, the Code of Conduct for Employees exists to develop or pattern behavior according to the Bank's standards, to ensure professional conduct, and to enforce discipline and order. The Code is implemented by the Human Resources Management Department. Copies of the Code of Conduct are given to employees upon hiring, while seminars are conducted regularly and regular issuances of advisories in order to further expound on the subject.

"Copies of the Code of Conduct are given to employees upon

hiring, while seminars are conducted regularly and regular issuances of advisories in order to further expound on the subject."

WHISTLE-BLOWING POLICY

Consistent with the Parent Bank, all employees of the Bank are encouraged and should impose upon themselves to perform the duty of disclosing to their immediate superior the existing or potential violations and wrongdoings that they are or may become aware of. The Bank's Policy on Timely Reporting of Concerns and Incidents, otherwise known as the Whistle-Blowing Policy, serves as a guide for all employees for reporting matters that breach integrity.

DIVIDEND POLICY

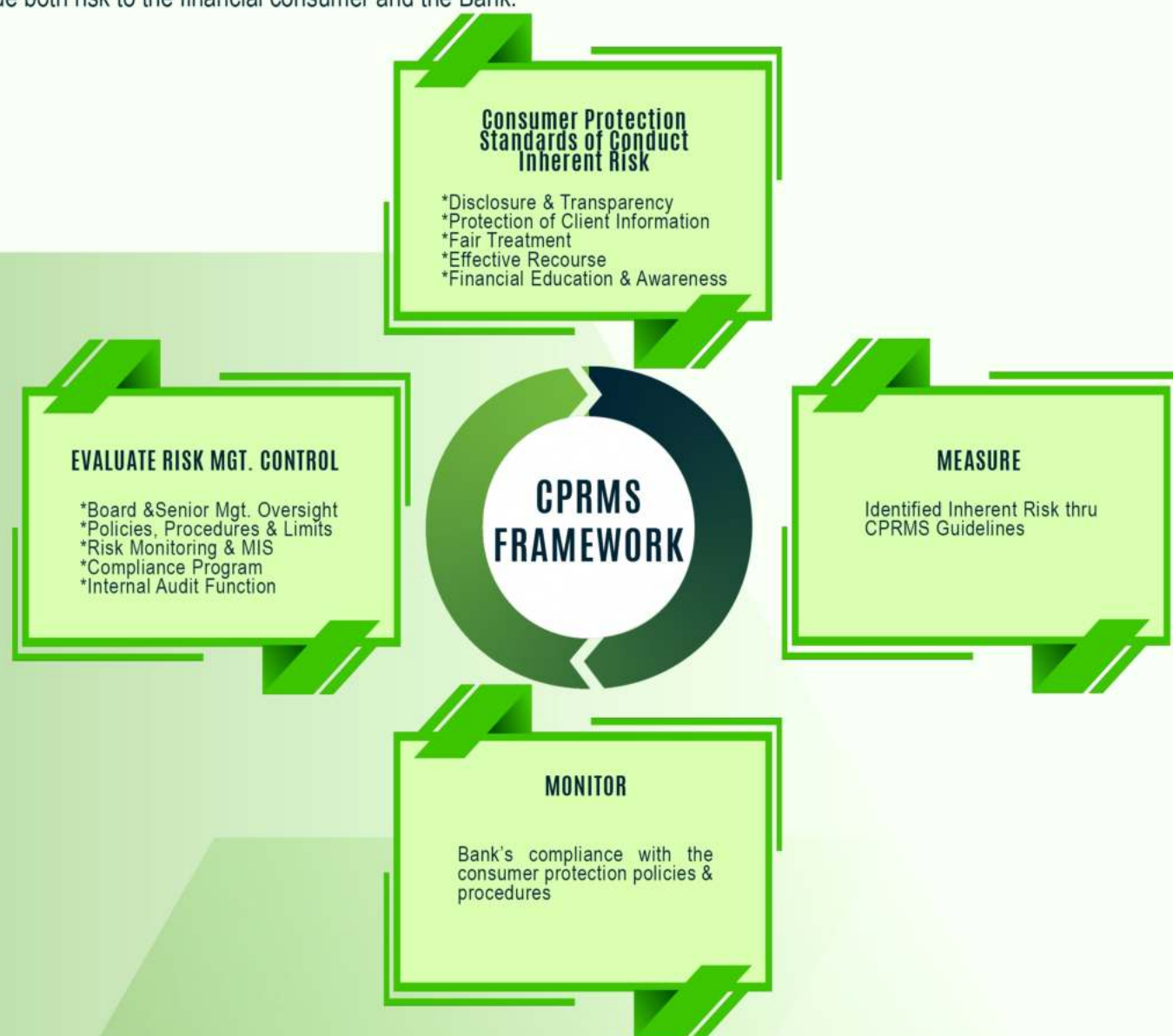
Pursuant to the Bank's by-laws and subject to resolution of the Board, the Bank may declare dividends annually provided the Bank has unrestricted retained earnings or surplus. However, to date, the Bank has not declared any dividends in accordance with existing laws, rules and regulations.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)

Pursuant to BSP Circular 857 entitled BSP Regulations on Financial Consumer Protection, Legazpi Savings Bank provides financial consumer protection in accordance with the said BSP Circular. The BSP Framework identifies five consumer protection standards which Banks must observe at all times; Disclosure and Transparency; Fair Treatment; Protection of Clients Information; Financial Education and Awareness; and Effective Recourse.

LSB established a Consumer Protection Risk Management System (CPRMS) Guidelines. There are amendments and updates made to the bank's CPRMS to define the roles and responsibilities of other business units and brief description of risk management tools, process and/or procedures.

The CPRMS Guidelines aims to identify, measure, monitor and control consumer protection risks inherent in its operations. These include both risk to the financial consumer and the Bank.



CONSUMER PROTECTION OVERSIGHT FUNCTION

The Senior Management and the Board are responsible for overseeing strategic direction and governance. They are responsible in developing the Bank's consumer protection strategies and establishing an effective management oversight over consumer protection program.

The Risk Management Unit provides foundation for ensuring that the Bank's consumer protection policies, procedures and practices address and prevent identified risk to the Bank and associated risk of financial loss to consumers.

The Compliance Unit ensures that the policies and procedures are consistent with the consumer protection policies approved by the Board and address compliance with the consumer protection laws, rules and regulations.

The Internal Audit Department provides the Senior Management and the Board with analysis, findings, and corrective actions and recommendations in meeting the consumer protection objectives.

The Human Resources Management Group is responsible for a Financial Education and Awareness Program that ensures that all relevant personnel particularly those whose roles and responsibilities have customer interface, receive specific and comprehensive training on consumer protection program of the Bank.

All business units are responsible in the complete and timely reporting of all request, queries and complaints (RQCs) received from all contact points of the Bank. They ensure that all RQCs received are forwarded to the Bank's Customer Care Center (C3) Unit.

Consumer Assistance Management is handled by the RBG that provides timely and efficient means for resolving complains with Bank's financial transaction. Digitization has opened pathways for Legazpi Savings Bank to build relationships to its customer in order to serve them better. The Bank received inquiries, requests, feedbacks and complaints from customers regarding its products and services through digital platforms. Various communication channels through the Customer Care Center (C3) such as the hotline, email feedback forms, website, social media, etc. are made available to clients so they can easily contact the Bank regarding these concerns.

MONITORS

daily inquiries, requests, and complaints received from customers and reports these to the management to provide solutions on the Bank's products and services to ensure service quality at all times.

MANAGES

the issues received from customers through the different channels, coordinate with concerned units, and respond to clients in efficient and professional manner within the committed turn-around-time to ensure customer satisfaction.

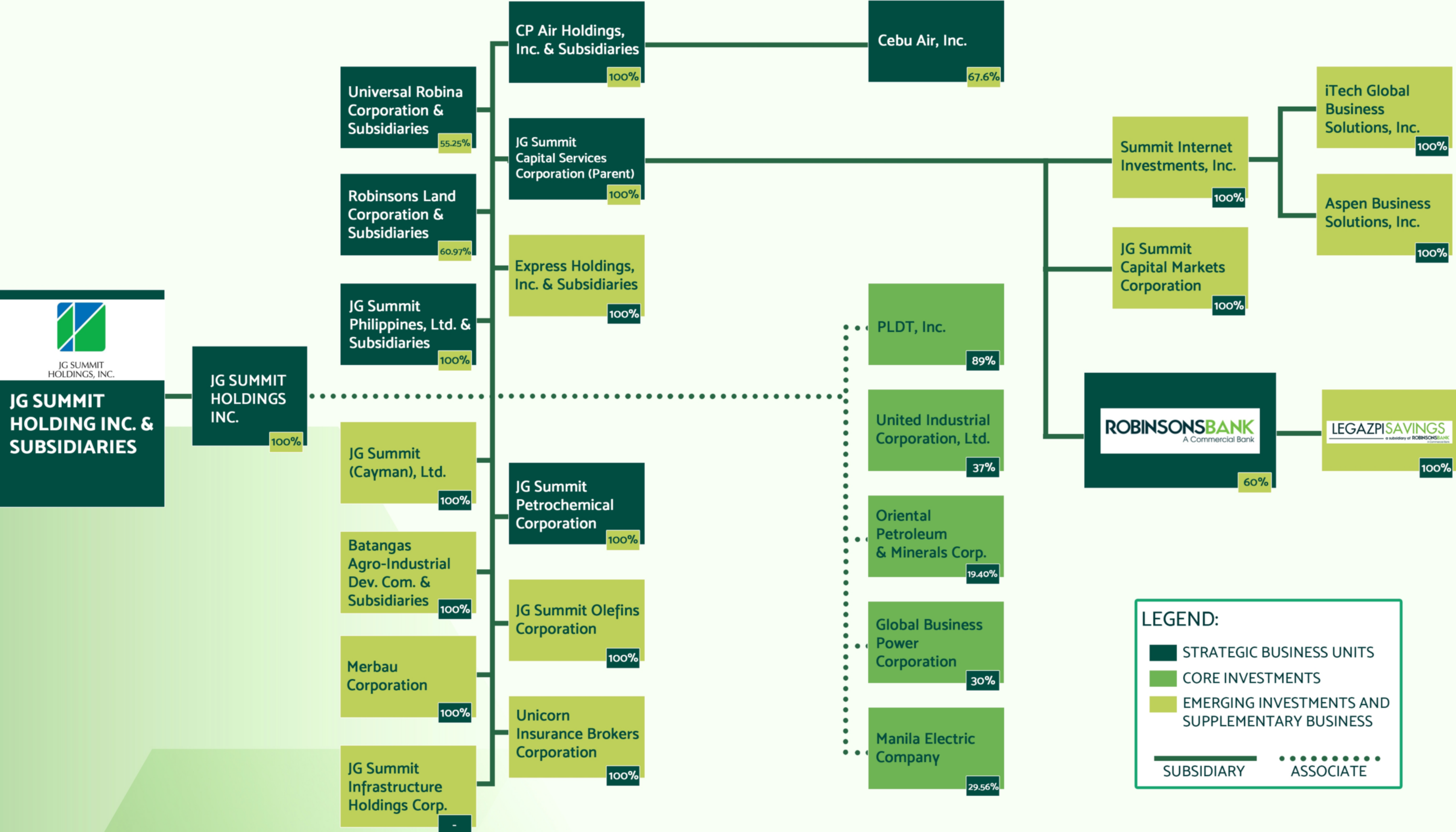
RECORDS

issues raised by employees regarding concerns within the Bank, and suggestions for improvement. Reports are included in the concerned unit's performance evaluation.



CONGLOMERATE MAP

(JG SUMMIT HOLDINGS INC.)



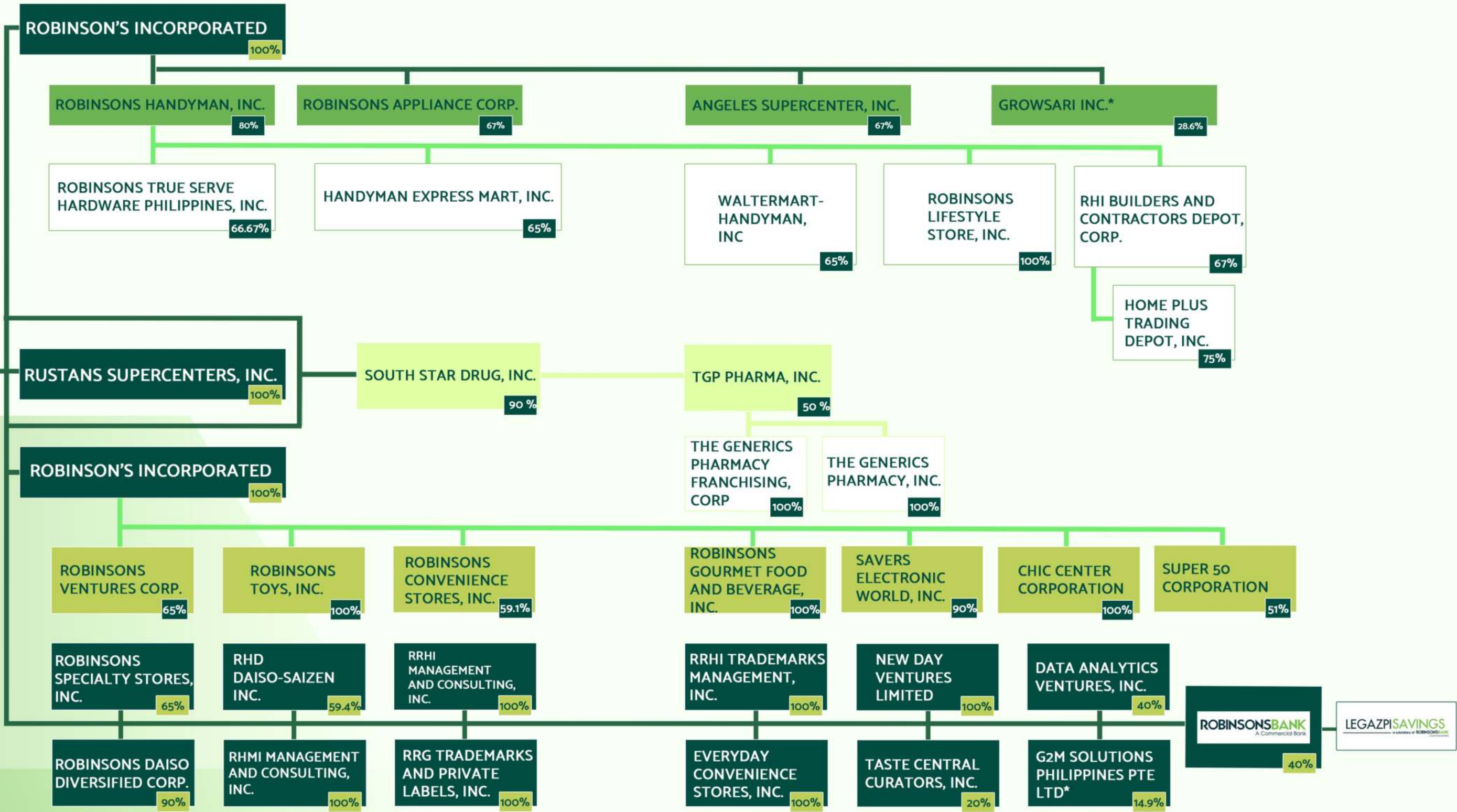
LEGEND:

- STRATEGIC BUSINESS UNITS
- CORE INVESTMENTS
- EMERGING INVESTMENTS AND SUPPLEMENTARY BUSINESS

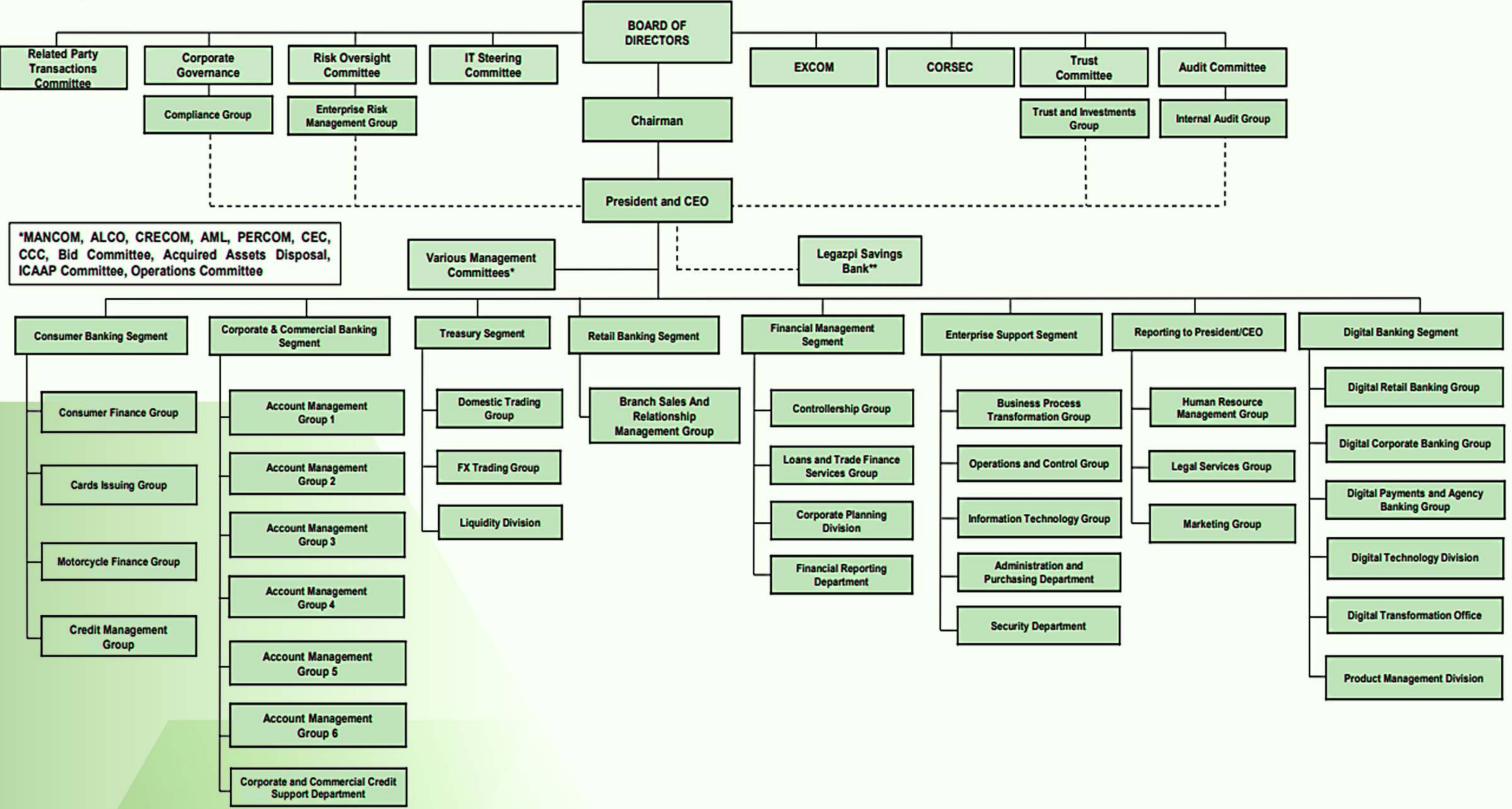
SUBSIDIARY ASSOCIATE

CONGLOMERATE MAP

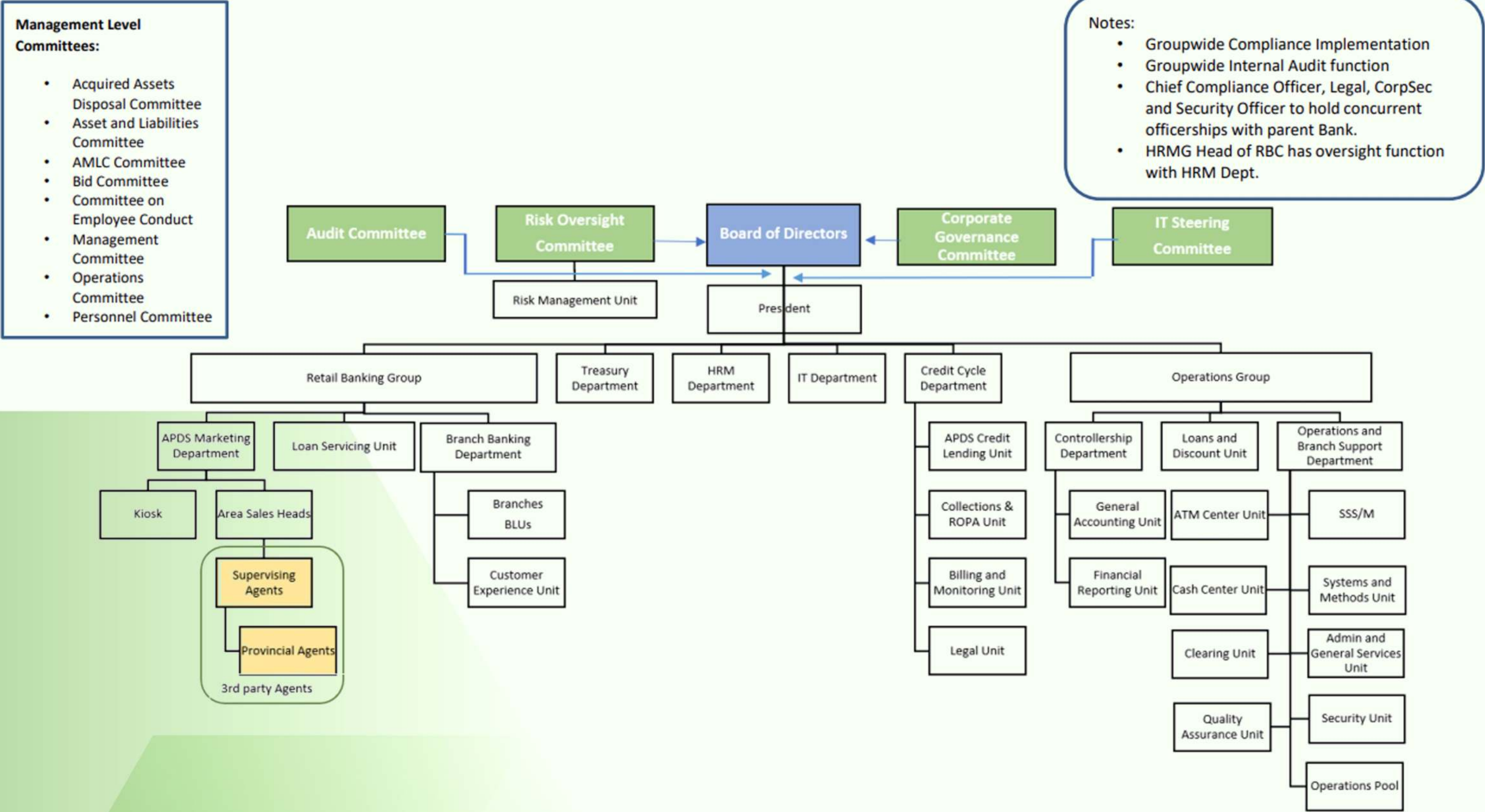
(ROBINSONS RETAIL HOLDINGS INC.)



ROBINSONS BANK ORGANIZATION STRUCTURE



ORGANIZATIONAL STRUCTURE



PRODUCTS AND SERVICES

DEPOSIT PRODUCTS

LSB offers a wide-range of interest-earning deposit products. The Bank's customers may open a savings, checking, or term deposit account. The table below shows the different deposit products of LSB:

Regular Savings Account

An interest bearing savings account that allows the customer the flexibility of accessing funds anytime through over-the-counter (OTC) for both savings and transactional purposes.

Regular Checking Account

A non-interest bearing peso deposit account that provides the additional transactional convenience of a checking facility (i.e. check issuance). Funds are accessed through check issuance, over-the-counter check encashment or deposits.

Bulilit Savings Account

An interest bearing savings account designed specifically for minors aging from seven (7) to twelve (12) years old. Like the Regular Savings Account, it allows the customer the flexibility of accessing funds anytime through over-the-counter (OTC) for savings and transactional purposes.

Special Savings Account

Special Savings Account is a Peso Term Deposit account that allows clients to earn higher than regular savings rates by maintaining their deposit balances for a specified period of time.

The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing

Market Interest Rates.

Friendly Savings Deposit

Friendly Savings Deposit is a Savings Account that allows clients to earn higher than regular savings rates by maintaining high deposit balances.

The earnings potential is largely influenced by the amount of deposit maintained and the prevailing Market Interest Rates.

Savings ATM Account

An interest bearing savings account that allows the customer the flexibility of accessing funds anytime through an Automated Teller Machine (ATM) for both savings and transactional purposes.

Regular Time Deposit

A Peso Term Deposit account that is evidenced by a certificate of Time Deposit (CTD). It allows clients to earn higher than regular savings rates by maintaining their deposit balances for a specified period of time.

The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing Market Interest Rates.

Simple Savings Account

An interest earning basic deposit account with low minimum opening amount of P100. This product will target the highly retail segment which is our market – individuals, who would want to have a bank account but cannot afford the high initial deposit and ID requirements.

LOAN PRODUCTS

LSB offers the following loan products:

CONSUMER LOANS

GO! Teacher's Loan - Financial Assistance for DepEd Teachers and Qualified Non-teaching Staff via APDS (Automatic Payroll

Deduction System)

A multi-purpose loan product managed by the Retail Banking Group (RBG) that is targeted to DepEd's teaching and non-teaching personnel. Repayment for APDS obligation is drawn against DepEd teaching personnel's salaries thru automatic payroll deduction.

Personal Salary Loan

A multi-purpose loan program managed by the Retail Banking Group (RBG) that is targeted to employed individuals. The loan is granted based on the paying capacity of the borrower. It is a clean or unsecured type of loan. Repayment for PSL obligations are drawn against the borrower's salaries and other payroll credits.

Other Loans

- Back-to-back loan - Secured by bank account deposits.
- Sales Contract Receivables (SCR) - Disposal of ROPA via installment basis.

BRANCH NETWORK & ATMs

LEGAZPI

Regular Branch

Rizal Corner & Mabini Streets, 4500 Legazpi City
0919-0630-927
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 8001; (052) 742-1380

DARAGA

Regular Branch

Perete Bldg., Sta Maria Street, Brgy. San Roque, Daraga, Albay 4501
0919-0630-928
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 8002

TABACO

Regular Branch

Ground Floor, N.N. Building, AA Berces Street Basud Tabaco City
0919-0630-929
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 8003

POLANGUI

Regular Branch

National Road, Basud, Polangui, Albay
0919-0630-930
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80004

SORSOGON

Regular Branch

CBA Bldg. Iamoralin Street, Burabod, Sorsogon City
0919-0630-931
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80005

ALBAY

Regular Branch

738 Building, Rizal, Street, Old Albay District 4500 Legazpi City
0919-0630-932
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80006; 80106

GUINOBATAN

Regular Branch

T. Paulate Street Guinobatan, Albay
0919-0630-933
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80007

DAET

Regular Branch

A. Subia Bldg. J Lukban Ext. Daet, Camarines Norte
0919-0630-934
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80008; 80108

VIRAC

Regular Branch

G/F D&L Building, Corner Surtida & Rizal Streets, San Jose, Virac, Catanduanes 4800
0919-0630-919
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80009

MASBATE

Regular Branch

Units 8 & 9 S&T Bldg. Cagba St. Brgy Tugbo Masbate City
0919-0630-935
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80010 ;
(056)333-5744

NAGA

Regular Branch

NEA Building, Triangulo, Naga City
0919-0630-936
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80011; 80111

GOA

Regular Branch

J. Quinson Building, Bagumbayan Pequeño, Rizal St., Goa, Camarines Sur
0919-0630-938
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80012; 80112

CALAUAG

Branch-Lite

Rizal St. Brgy. Sta. Maria, Calauag Quezon
0919-0630-937
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80013;
(042) 717-6763

LUCENA

Regular Branch

A.M. Lubi Bldg. ML Tagarao St. Corner Elias St. Brgy. S. Lucena City
0919-0630-940
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80014; 80114; (042) 717-6765

PAMPANGA

Regular Branch

4 & 2 Bldg., Mc Arthur Highway, Sindalan, City of San Fernando, Pampanga
0998-565-8865
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 80015; (045) 436-60005

DASMARIÑAS

Regular Branch

0998-565-8874
G/F Wincorp Bldg., Molino Paliparan Rd., Brgy. Salawag, Dasmariñas City, Cavite
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80016

IRIGA

Regular Branch

0998-565-8876
DLS Building, 121-Zone 6, Hi-Way 1, San Isidro, Iriga City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80017

CAINTA

Regular Branch

0998-565-8893
ECCOI Corporate Center, Ortigas Extension, St. Anthony Subdivision, Cainta, Rizal
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 0018;80218

MALOLOS

Branch-Lite

0919-063-0946
MKTJ Building M2, Fausta, Subdivision, Mabolo, Malolos, Bulacan
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82506

STO. TOMAS

Branch-Lite

Kath's Place, A. Bonifacio Street, Poblacion 2, Sto. Tomas, Batangas
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82505

PUERTO PRINCESA

Branch-Lite

DRCM Riviera Complex, Unit 5, Brgy. San Manuel, Puerto Princesa City, Palawan
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82526

SAN JOSE

Branch-Lite

0918-951-0065
ARJ Bldg., San Roque corner Cardenas St., Brgy. Abar 1st., San Jose City, Nueva Ecija
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82539

KABANKALAN

Branch-Lite

0918-946-7958
Hernando Chua Bldg., Solar St., Kabankalan City, Negros Occidental
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82524

SANTIAGO

Branch-Lite

0918-946-7958
Guevarra St., No. 1229, Perez St., Calao West, Santiago City, Isabela
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82517

BINMALEY (Dagupan)

Branch-Lite

0918-951-4180
D & M Realty Bld., Purok 6, Naguilan Highway, Binmaley, Pangasinan
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82516

CALAPAN

Branch-Lite

0918-951-9940
RR Paras Bldg., Leuterio St., San Vicente South, Calapan City, Oriental Mindoro
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82523

JARO

Branch-Lite

0918-947-4520
OPC Bldg., EL 98 Street, Jaro, Iloilo City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82540

LIPA

Branch-Lite

0918-947-4520
RDL Building, 004 Pres. Laurel Street, National Road, Maraway, Lipa City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82521



Legazpi Savings Bank, Inc.
*(A Wholly Owned Subsidiary of
Robinsons Bank Corporation)*

Financial Statements
December 31, 2022 and 2021

and

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Legazpi Savings Bank, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Legazpi Savings Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Manual Regulations for Banks

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 and the Manual of Regulations for Banks in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and BSP, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Legazpi Savings Bank, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Juan Carlo Maminta

Juan Carlo B. Maminta
Partner

CPA Certificate No. 115260

Tax Identification No. 210-320-399

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 115260-SEC (Group A)

Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-132-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9564655, January 3, 2023, Makati City

May 2, 2023



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Cash and Other Cash Items	P123,700,910	P59,414,867
Due from Bangko Sentral ng Pilipinas (Note 13)	860,677,828	41,069,486
Due from Other Banks	105,742,516	55,861,699
Securities Purchased Under Resale Agreement (Note 6)	277,948,745	117,595,804
Investment Securities at Amortized Cost (Note 7)	19,998,100	19,998,100
Loans and Receivables (Notes 8)	2,959,704,363	1,572,899,226
Property and Equipment (Note 9)	100,933,089	83,080,056
Investment Properties (Note 10)	98,018,374	96,715,942
Deferred Tax Asset (Note 22)	84,467,917	142,691,999
Assets of Disposal Group Classified as Held for Sale (Note 24)	–	757,487,726
Other Assets (Note 11)	17,623,258	14,562,615
	P4,648,815,100	P2,961,377,520
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13)		
Demand	P270,242,419	P43,769,473
Savings	3,338,940,632	1,042,684,471
Time	266,163,230	282,528,914
	3,875,346,281	1,368,982,858
Accrued Expenses (Note 14)	37,530,573	20,183,690
Redeemable Preferred Shares (Note 15)	30,700,000	30,700,000
Liabilities of Disposal Group Classified as Held for Sale (Note 24)	–	837,900,202
Other Liabilities (Note 14)	108,512,408	87,389,371
	4,052,089,262	2,345,156,121
EQUITY		
Capital Stock (Note 17)	1,245,960,000	1,245,960,000
Deficit	(658,913,209)	(629,840,021)
Surplus Reserve (Note 17)	6,451,913	6,451,913
Remeasurement Gains (Losses) on Retirement Liability (Note 20)	3,227,134	(6,350,493)
	596,725,838	616,221,399
	P4,648,815,100	P2,961,377,520

See accompanying Notes to Financial Statements.

LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2022	2021
INTEREST INCOME		
Loans and receivables (Notes 8)	P316,580,665	P323,968,772
Due from Bangko Sentral ng Pilipinas and other banks	15,780,577	6,781,507
Securities Purchased Under Resale Agreement (Note 6)	6,359,784	2,158,829
Investment securities at amortized cost (Note 7)	904,380	894,834
	339,625,406	333,803,942
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 22)	56,212,582	30,330,447
Interbank loans payable	675,000	–
Lease liability (Notes 14 and 20)	4,393,452	4,590,992
	61,281,034	34,921,439
NET INTEREST INCOME	278,344,372	298,882,503
Service fees and commission expense (Note 18)	12,830,422	9,184,494
Service fees and commission income (Note 18)	9,482,639	1,576,869
NET SERVICE FEES AND COMMISSION INCOME (EXPENSE) (Note 18)	(3,347,783)	(7,607,625)
Gain on sale of loans and receivables (Note 8)	9,449,176	–
Gain on foreclosure - net (Notes 10 and 11)	3,383,118	5,995,991
Profit from assets sold (Notes 9, 10 and 11)	1,318,454	16,581,404
Miscellaneous (Notes 18)	15,031,079	19,476,366
TOTAL OPERATING INCOME	304,178,416	333,328,639
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 19 and 22)	100,455,577	124,315,483
Depreciation and amortization (Note 9)	42,016,029	47,306,487
Security, messengerial and janitorial	28,055,161	43,991,674
Taxes and licenses	26,999,051	21,719,742
Information technology	18,329,797	17,140,232
Transportation and travel	13,358,007	13,476,872
Power, light and water	10,016,261	8,754,918
Insurance	8,217,953	7,880,300
Occupancy and equipment-related	6,916,889	10,372,655
Management and professional fees	3,865,253	2,679,931
Communication	2,561,910	2,891,905
Entertainment, amusement, and recreation	696,288	1,465,936
Provision for (recovery from) credit and impairment losses (Note 12)	(181,936)	28,711,752
Miscellaneous (Note 18)	9,419,649	11,613,696
TOTAL OPERATING EXPENSES	270,725,889	342,321,583
INCOME (LOSS) BEFORE INCOME TAX	33,452,527	(8,992,944)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)	62,525,715	(10,992,140)
NET INCOME (LOSS)	(P29,073,188)	P1,999,196

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 17)	Deficit	Surplus reserve (Note 17)	Remeasurement losses on retirement liability (Note 20)	Total
Balance at January 1, 2022	₱1,245,960,000	(₱629,840,021)	₱6,451,913	(₱6,350,493)	₱616,221,399
Total comprehensive income (loss)	–	(29,073,188)	–	9,577,627	(19,495,561)
Balance at December 31, 2022	₱1,245,960,000	(₱658,913,209)	₱6,451,913	₱3,227,134	₱596,725,838
Balance at January 1, 2021	₱1,245,960,000	(₱631,839,217)	₱6,451,913	(₱5,090,784)	₱615,481,912
Total comprehensive income	–	1,999,196	–	(1,259,709)	739,487
Balance at December 31, 2021	₱1,245,960,000	(₱629,840,021)	₱6,451,913	(₱6,350,493)	₱616,221,399

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2022	2021
NET INCOME (LOSS)	(₱29,073,188)	₱1,999,196
OTHER COMPREHENSIVE INCOME		
Item that may not be reclassified to profit or loss:		
Remeasurement gains (losses) on retirement liability, net of tax (Note 20)	9,577,627	(1,259,709)
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱19,495,561)	₱739,487

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	P33,452,527	(P8,992,944)
Adjustments for:		
Depreciation and amortization (Note 9)	42,016,029	47,306,487
Retirement expense (Note 20)	11,065,409	5,243,787
Gain on sale of loans and receivables (Note 8)	(9,449,176)	—
Interest on lease liability (Notes 14 and 21)	4,393,452	4,590,992
Gain on foreclosure (Notes 10 and 11)	(3,383,118)	(5,995,991)
Profit from assets sold (Notes 9, 10 and 11)	(1,318,454)	(16,581,404)
Provision for (reversal of) credit and impairment losses (Note 12)	(181,936)	28,711,751
Changes in operating assets and liabilities:		
Increase in:		
Loans and receivables	(1,944,764,623)	(266,400,034)
Other assets	(3,060,643)	(1,503,494)
Increase (decrease) in:		
Deposit liabilities	2,506,363,423	128,878,985
Accrued expenses	17,346,883	(467,903)
Other liabilities	21,123,037	4,087,977
Net cash generated from (used in) operations	673,602,810	(81,121,791)
Income taxes paid	(2,105,415)	(1,028,923)
Net cash provided by (used in) operating activities	671,497,395	(82,150,714)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(2,392,478)	(14,441,881)
Software costs (Note 11)	(1,424,746)	(1,978,734)
Proceeds from sale of:		
Investment properties (Notes 10 and 25)	8,660,000	35,522,799
Property and equipment (Note 9)	14,060	605,255
Repossessed chattels (Note 11)	1,036,700	3,024,337
Net cash provided by investing activities	5,893,536	22,731,776
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of principal portion of lease liability (Note 20)	(18,897,317)	(16,819,337)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	658,493,614	(76,238,275)

(Forward)

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	Years Ended December 31	
	2022	2021
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items (Note 25)	P106,648,011	P113,070,533
Due from Bangko Sentral ng Pilipinas (Note 25)	400,564,592	444,968,492
Due from other banks (Note 25)	84,767,979	98,109,462
Securities purchased under resale agreement	117,595,804	129,666,175
	P709,576,386	P785,814,662
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	P123,700,910	P106,648,011
Due from Bangko Sentral ng Pilipinas	860,677,828	400,564,592
Due from other banks	105,742,516	84,767,979
Securities purchased under resale agreement	277,948,745	117,595,804
	P1,368,069,999	P709,576,386
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	P339,625,406	P354,568,242
Interest paid	P56,887,582	P36,173,289

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS

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1. Corporate Information

Legazpi Savings Bank, Inc. (the Bank) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1976. The Bank offers a wide range of financial services that includes checking, savings, special savings, time, automated teller machine (ATM) accounts, market vendors loan, agricultural loan, salary loan for employees, real estate loan, consumption loan, commercial loan, credit line, bills purchased line, back-to-back loan, auto loan, housing loan, developmental loan, and other financial services.

The Bank operates and provides its services through a network of nineteen (19) banking units including its head office and a main branch in the area of Albay.

The Bank's principal place of business is at 738 Bldg. Rizal Street, Old Albay District, Legazpi City.

Robinsons Bank Corporation (the Parent Bank) acquired effective control and management of the Bank on December 26, 2012, in accordance with Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*.

The Parent Bank is 60.00% and 40.00% owned by JG Summit Capital Services Corporation and Robinsons Retail Holdings, Inc., respectively. The ultimate parent company of the Bank is JG Summit Holdings, Inc.

On September 30, 2022, the Board of Directors of the Parent Bank approved the plan of merger of the Parent Company with the Bank of Philippine Islands (BPI), with BPI as the surviving entity. The Bank is included in the agreement for the merger and will continue to be a subsidiary of the merged entity, subject to the final approval of BPI. On November 16, 2022, the Parent Bank notified the Philippine Competition Commission (PCC) about the proposed statutory merger with BPI.

On January 17, 2023, at the special stockholders' meeting of the Parent Bank called for the purpose, its stockholders owning more than two thirds (2/3) of all issued and outstanding shares approved the plan of merger and articles of merger with BPI. On January 26, 2023, the Parent Bank and BPI jointly filed with the BSP and SEC their request for approval of their statutory merger. To date, the statutory merger of the Bank and BPI is still awaiting approvals of the aforementioned government regulators. Completion of all approvals is targeted by the last quarter of 2023 and legal merger is expected to take effect by January 1, 2024. The merger is seen as a strategic move that will unlock various synergies across businesses, expand customer bases, and enhance the overall banking experience of the Parent Bank's customers with the combined network (see Note 26).

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Bank have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (PHP), the Bank's functional and presentation currency and all amounts are rounded to the nearest peso (₱), unless otherwise indicated.

Statement of Compliance

The Bank's financial statements have been prepared in compliance with PFRSs.

Presentation of Financial Statements

The Bank presents its statements of financial position broadly in the order of liquidity. An analysis regarding the recovery or settlement within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 16.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assessed that it has a currently enforceable legal right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, and in the event of solvency or bankruptcy of the Bank and all of the counterparties. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2022. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Bank.

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

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

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

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

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

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental



costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

• *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

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

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

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

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the estimated 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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



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

Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the measurement is unobservable.

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

Cash and Cash Equivalents

Cash and cash equivalents include 'Cash and other cash items (COCI)', 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks' and 'Securities Purchased Under Resale Agreement (SPURA)' with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial instruments that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposits, amounts due from banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue, except in the case of financial assets and financial liabilities at financial assets at fair value through profit or loss.

'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 instrument or computed based on a valuation technique whose variables include only data from observable markets, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable from the market, the difference between the transaction price and the model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the amount of 'Day 1' difference.



Classification and Measurement of Financial Assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at amortized cost (AC). For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

As of December 31, 2022 and 2021, the Bank do not have financial assets at FVTPL and FVOCI.

Contractual cash flows characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount). Instruments that do not pass this test are automatically classified at FVTPL.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

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

Financial assets at amortized cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual

terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Securities purchased under resale agreements', 'Investment securities at amortized cost', 'Loans and receivables' and refundable security deposits (included under 'Other assets') as financial assets at amortized cost.

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

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

Reclassifications of financial instruments

The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated. The Bank does not reclassify its financial liabilities.

The Bank is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met;
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria; and
- from FVOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost criteria is still met and the instrument's contractual cash flows meet the amortized cost criteria.

Impairment of Financial Assets

The Bank records expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.



Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. In determining whether an account should be assessed under Stage 1, the Bank considers the number of days past due as its criteria. Loans past due up to 30 days except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days are considered Stage 1. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. A SICR is generally deemed present in accounts with more than 30 days up to 90 days past due, except for microfinance loans. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

Definition of "default"

The Bank classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days except for microfinance loans wherein days past due is more than 10 days. As part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Credit risk at initial recognition

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

Significant increase in credit risk

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses.

For exposures without internal credit grades, if contractual payments are more than 30 days (except for microfinance loans wherein the threshold for SICR is 7 - 10 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.



ECL parameters and methodologies

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

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

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

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

Forward-looking information

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

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

Restructured loans

Where possible, the Bank seeks to restructure past due loans rather than take possession of the related collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized as part of interest income in the statement of income.

Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.



As of December 31, 2022 and 2021, the Bank has no financial liabilities at FVTPL.

Other financial liabilities

This pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Deposit liabilities', 'Redeemable preferred shares', and certain items under 'Accrued expenses' and 'Other liabilities'.

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Offsetting Financial Instruments

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

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



Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control over the asset, the Bank continues to recognize the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

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

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10.00% different from the present value of the remaining cash flows of the original financial asset.

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



or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

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

Financial liability

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

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

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

Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives of property and equipment follow:

Building	25 years
Furniture and fixtures	1 to 3 years
Information technology (IT) and other office equipment	1 to 3 years
Transportation equipment	1 to 5 years
Leasehold improvements	10 years

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and adjusted prospectively, if appropriate.

The carrying values of the property and equipment and any significant part initially recognized are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of income.



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

The Bank classifies right-of-use assets as part of property and equipment. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Bank. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified as investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as 'Gain on foreclosure - net' in the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value, if any.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed ten (10) years for buildings.

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



For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in compliance with the policy stated under property and equipment up to the date of change in use.

Disposal Group Classified as Held for Sale

Measurement and Presentation of Disposal Group

The Bank classifies disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

Cessation of Disposal Group

The Bank ceases to classify the disposal group as held for sale when a decision to change the plan to sell the disposal group has occurred.

The Bank measures a disposal group that ceases to be classified as held for sale at the lower between; carrying amount before disposal group was classified as held for sale, adjusted for any depreciation or amortization that would have been recognized had the disposal group not been classified as held for sale; or recoverable amount at the date of the subsequent decision not to sell.

The Bank includes any required adjustment to the carrying amount of a disposal group that ceases to be classified as held for sale in the statement of income in the period in which the criteria for held for sale, are no longer met.

Other assets - Repossessed chattels

Repossessed chattels comprise repossessed vehicles and jewelries. Repossessed chattels are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight-line basis using the remaining useful lives of the vehicles from the time of acquisition. The useful lives of repossessed chattels are estimated to be three (3) years.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Branch licenses

Branch licenses arise from the acquisition of licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs

Software costs are carried at cost less accumulated amortization and any accumulated impairment loss. Software costs are amortized on a straight-line basis over the estimated useful life which is three (3) years.

Impairment of Non-financial Assets

Property and equipment, investment properties and repossessed chattels

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

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

Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises. An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset (or CGU) is



increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset (or CGU) is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

The Bank exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Bank has concluded that it is acting as a principal in all of its revenue arrangements.

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

Revenues within the scope of PFRS 15

Service fees and commission income

These fees include service fees on deposit-related accounts and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

Income from sale of property and equipment, investment property and repossessed chattels

Income from sale of property and equipment, investment property and repossessed chattels are recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Other income

Other income is recognized when earned at a point in time and is recorded under 'Miscellaneous' in the statement of income.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimation of payment or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Interest income - finance lease

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased investment property constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of investment property at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Unearned lease income ceases to be amortized when the lease contract receivables become past due for more than three months.

Rental income

Rental income arising from operating leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Bank include, among others, the operating expenses on the Bank's operation. Expenses are recognized as incurred.

Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the qualifying assets are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the qualifying assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred.

Leases

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



Bank as a lessor

Finance leases, where the Bank transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equal to the net investment in the lease. All income resulting from the receivables is included in 'Interest income on loans and receivables' in the statement of income.

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Bank as a lessee

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

Lease liabilities

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

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are presented under 'Other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and low-value assets recognition exemption to its leases of kiosk spaces on offsite locations and other equipment that are considered of low value (i.e., below P250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related' on a straight-line basis over the lease term.

Retirement Cost

The Bank has noncontributory defined benefit plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and regular employees are entitled to cash benefits after satisfying certain age and service requirements.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted

for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in statement of other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is



virtually certain. The expense relating to any provision is presented in the OCI, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investment in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that

it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transactions either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Events After the Reporting Period

Post year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2023

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.



- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify:

- That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.



Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a) Evaluation of business model in managing financial instruments

The Bank manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). The Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

The Bank's BOD approved its documentation of business models which contains broad categories of business models. The business model includes the Bank's lending activities as well as treasury business activities broken down into liquidity and investment portfolios.

In addition, PFRS 9 provides that the Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. In making the assessment, the Bank considers the significance of the changes in its strategy that is demonstrable to internal and external parties. The Bank also considers the impact of the change in strategy to its overall risk profile to determine whether the objectives in managing its financial assets have changed.

In 2022, the BOD approved the change in the Bank's business model due to the Bank's overall change in strategy brought by internal and external events that changed the Bank's business and liquidity requirements to focus on growing DepEd APDS loans receivables. Based on the Bank's liquidity requirement, in order to continue to grow its APDS loans receivables, the Bank plans to sell its APDS loans to the Parent Bank as the current core deposits may not be sufficient to meet the forecasted loan growth demand. As of December 31, 2022, the Bank increased its APDS loans receivable by 121.66% since the implementation on the change in strategy (loan level to P2.99 billion as of December 31, 2022 from P1.35 billion as of December 31, 2021). Further, starting July 2022, the Bank sold its APDS loans receivables with a carrying amount of P772.61 million to the Parent Bank as part of its new overall change in strategy (see Note 8).



b) Contingencies

The Bank is currently involved in various legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Bank's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 23).

c) Classification of disposal group as held for sale

In determining the classification of disposal group as held for sale, the Bank assesses whether the held for sale criteria were met. In making this judgment, the Bank considers the following:

- availability of the disposal group for immediate sale in its present condition subject only to terms that are usual and customary for sales; and
- the sale must be highly probable

For the sale to be highly probable, management must be committed to the sale, and an active program to locate a buyer and complete the plan must have been initiated. Further, the disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

As part of the Bank's strategy to streamline its operations in relation to its Parent Bank's overall change in strategy, the management of the Bank is committed to its plan to sell and has taken sufficient steps necessary for the disposal of certain assets and liabilities as of December 31, 2021. The Board approved the sale of selected assets and liabilities to the Parent Bank on October 21, 2021. Hence, management has determined that the disposal group met the criteria as held for sale as of December 31, 2021.

In addition, PFRS 5 provides that the Bank should cease to classify the disposal group as held for sale when a decision to change the plan to sell the disposal group has commenced and the criteria to be classified as held for sale would no longer be met. In making this judgement, the Bank considers if the sale is still highly probable and if the management remains to be committed on its plan to sell the disposal group regardless, if the period to complete the sale is beyond one year.

In October 2022, the Parent Bank communicated its request to the BSP to put on hold the joint application for the transfer of assets and liabilities due to the impending merger between the Parent Bank and BPI (see Note 1), to lessen the possible inconvenience to the Bank's clients.

Hence, the expected transfer to Parent Bank will no longer materialize within the 12-month period and there is no concrete intention to continue with the transfer due to the above-mentioned reason, as also evident on the letter communication acknowledged by BSP. Effective October 2022, the disposal group cease to be classified as assets and liabilities held for sale. These assets and liabilities were measured at carrying amount as if not previously classified as held for sale as of December 31, 2022 (see Note 24).



Estimates

a) Impairment of financial assets

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, 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.

Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns PDs to the individual grades
- 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 CL 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, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The ECL models and all ECL-related policies are approved by the Risk Management Committee and the Board of Directors. The Risk Management Unit calculates the ECL for all credit risk exposures. The total ECL that will be booked by the General Accounting Division is approved by both the Chief Operating Officer and the Chief Risk Officer.

The carrying value of and the allowance for credit losses on loans and receivables of the Bank as of December 31, 2022 and 2021 are disclosed in Notes 8 and 12, respectively.

b) Impairment of non-financial assets

The Bank assesses impairment on property and equipment, investment properties and repossessed chattels whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach for property and equipment and fair value less costs to sell for investment properties and repossessed chattels. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The details of the carrying values of and the allowance for impairment losses, if any, on property and equipment, investment properties and repossessed chattels are discussed in Notes 9, 10, 11 and 12.



Branch licenses

Branch license is considered an intangible asset with an indefinite useful life and it is required to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. The recoverable amount of the CGU has been determined based on a value in use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period. The Bank used the cost of equity as discount rate. Key assumptions used in the value in use calculation are pre-tax discount rate and growth rate, which are at 10.54% and 5.00%, respectively in 2022. Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the CGUs to exceed their recoverable amount. As of December 31, 2022 and 2021, the licensing fee for establishment of a branch and a branch-lite unit of a thrift bank is ₱0.20 million. The carrying values of and the allowance for impairment losses on branch licenses of the Bank are disclosed in Notes 11 and 12, respectively. In 2022 and 2021, the Bank has not recognized provision for impairment losses on branch licenses (see Note 12).

c) Present value of retirement liability

The cost of pension and other employee benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

The details of the present values of retirement obligation of the Bank are discussed in Note 20.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

d) Recognition of deferred tax assets

Deferred tax assets are recognized for temporary differences, unused tax losses and excess of MCIT over RCIT to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits available which is primarily derived from interest income on loans and receivables and affected by expected future market or economic conditions and the expected performance of the Bank together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The primary source of the income of the Bank is coming from interest income from loans and receivables. Management uses historical information and forecast of future economic conditions and overall strategies of the Bank as basis of growth in projecting future taxable income. The details of the temporary differences with unrecognized deferred tax assets and recognized deferred tax assets and liabilities are disclosed in Note 22.



4. Financial Risk Management Objectives and Policies

The main risks arising from the Bank's financial instruments are credit, market and liquidity risks. In general, the Bank's risk management objective is to ensure that risks taken are within the Bank's risk appetite, which is assessed based on the Bank's capital adequacy framework. The risk management process involves risk identification, measurement, monitoring and control.

The Bank recognizes that risk management is the responsibility of the entire organization. Accordingly, all employees are expected to manage risks relating to their own responsibilities. Still, there are specialized entities within the Bank that perform certain risk management functions. The Board of Directors (BOD) ultimately oversees and approves significant matters related to risk management throughout the Bank. The BOD directly carries out its primary responsibilities as required by law and through committees and subcommittees for specific areas of focus. The Management Committee approves all major risk-taking activities of the Bank, and functions as the BOD's operating committee for approval of all major credit risks.

Among the Bank's committees are:

- the Risk Management Committee (RMC), which formulates policies and strategies to identify, measure, manage and limit the Bank's risks;
- the Audit Committee (AC), which examines the Bank's framework of risk management, control and governance process to ensure that these are adequate and functional; and
- the Corporate Governance Committee (CGC), which ensures the BOD's effectiveness and due observance of the corporate governance principles and guidelines.

The following units within the Bank jointly perform risk management functions on a daily basis:

- Compliance for regulatory risk;
- Treasury for funding and liquidity risk;
- Credit Cycle and Operations for credit risk;
- Risk Management for various risks, including market, credit and operational risks; and
- Internal Audit for the evaluation of the adequacy of internal control systems, covering operational risk.

These units submit various risk reports to the Management Committee, the RMC, the AC, the CGC and the BOD, among others.

Further specific risk management disclosures, including mitigation, measurement and control, are in the succeeding sections.

Credit Risk

Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Bank.

The Bank has several credit risk mitigation practices:

- The Bank offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Bank is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Bank also observes related regulatory limits such as the single borrower's limit (SBL) and

directors, officers, stockholders and related interests (DOSRI) ceiling.

- The Bank assesses the probability of default by its borrowers using an internal loan classification system.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

Maximum exposure to credit risk after collateral held or other credit enhancements

The table below shows the Bank's net credit risk exposure for some items in loans and receivables after considering the financial effect of collateral and other credit enhancements:

	2022			
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
SPURA	P277,948,745	P277,948,745	P277,948,745	P-
Loans and receivables				
Receivables from customers				
Consumption	2,873,566,639	51,010,451	10,879,804	2,862,686,835
Real estate	6,032,627	23,679,716	5,774,793	257,835
Commercial	3,068,366	65,486,465	2,322,828	745,538
Other receivables				
Accrued interest receivable	17,577,457	-	-	17,577,457
Sales contract receivable	8,111,427	26,291,353	8,111,427	-
Accounts receivable	51,347,847	-	-	51,347,847
Total	P 3,237,653,108	P 444,416,730	P 305,037,597	P 2,932,615,512

	2021			
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
SPURA	P117,595,804	P117,595,804	P117,595,804	P-
Loans and receivables*				
Receivables from customers				
Consumption	1,598,612,021	224,063,874	99,527,698	1,499,084,323
Commercial	141,488,213	303,071,552	140,639,679	848,534
Real estate	57,452,154	237,734,565	55,754,389	1,697,765
Other receivables				
Accrued interest receivable	29,651,392	-	-	29,651,392
Accounts receivable	18,431,334	93,836,481	18,431,334	-
Sales contract receivable	8,652,994	-	-	8,652,994
Total	P1,971,883,912	P976,302,276	P431,948,904	P1,539,935,008

*Include assets of disposal group classified as held for sale

Offsetting of financial assets and financial liabilities

The Bank has also entered into a reverse sale and repurchase agreements with various counterparties that are accounted for as a collateralized lending. These transactions are subject to a global master repurchase agreement with a right of set-off only against the collateral securities upon default and insolvency or bankruptcy and therefore do not meet the offsetting criteria under PAS 32. Consequently, the related SPURA is presented separately from the collateral securities in the Bank's statements of financial position.

The table below presents the recognized financial instruments of the Bank that are offset, or subject to enforceable master netting agreements or other similar arrangements but not offset, as at December 31, 2022 and 2021, taking into account the effects of over-collateralization.



	Gross amounts of recognized financial instruments	Gross amounts set-off in accordance with the PAS 32 offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Financial collateral	
2022						
Financial Assets						
SPURA	P277,948,745	P-	P 277,948,745	P-	P 277,948,745	P-
2021						
Financial Assets						
SPURA	P117,595,804	P-	P117,595,804	P-	P117,595,804	P-

Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Real Estate Mortgages (REM) over real estate for housing loan, consumption, and SME loans; and
- Chattels Mortgages (CM) over vehicle and inventory for auto loans, consumption loan, SME loans, and small business loans.
- Securities for securities lending and reverse repurchase transactions

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

Concentration of credit

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

The tables below show the distribution of maximum credit exposure to credit risk by industry sector of the Bank before taking into account collateral held and other credit enhancements:

	2022				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Other service activities	P3,049,610,635	P-	P-	P-	P3,049,610,635
Wholesale and retail trade, repair of motor vehicles and motorcycles	82,581,195	-	20,000,000	-	102,581,195
Agriculture, forestry and fishing	30,515,702	-	-	-	30,515,702
Real estate activities	15,966,768	-	-	2,329,978	18,296,746
Education	7,904,064	-	-	-	7,904,064
Construction	4,850,634	-	-	-	4,850,634
Accommodation and food services activities	4,291,462	-	-	-	4,291,462

(Forward)

	2022				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	P17,971,541	P-	P-	P-	P17,971,541
Transportation and storage	1,062,787	-	-	-	1,062,787
Manufacturing	1,040,097	-	-	-	1,040,097
Financial and insurance activities	20,352	1,244,369,089	-	-	1,244,389,441
Water supply, Sewerage, Waste Management and Remediation Activities	136,652	-	-	-	136,652
Mining and quarrying	103,804	-	-	-	103,804
Information and communication	116,804	-	-	-	116,804
Human health and social work activities	73,836	-	-	-	73,836
Professional, scientific and technical activities	37,289	-	-	-	37,289
Arts, entertainment and recreation	52,711	-	-	-	52,711
Electricity, gas, steam and air, conditioning supply	39,675	-	-	-	39,675
	3,216,376,008	1,244,369,089	20,000,000	2,329,978	4,483,075,075
Less allowance for credit losses	256,671,645	-	1,900	-	256,673,545
	P2,959,704,363	P1,244,369,089	P19,998,100	P2,329,978	P 4,226,401,530

*Comprised of Due from BSP, Due from other banks and SPURA

	2021				
	Loans and Receivables*	Advances to Banks**	Investment securities at amortized cost	Refundable deposits	Total
Other service activities	P1,667,824,926	P-	P-	P-	P1,667,824,926
Financial and insurance Activities	20,533	602,928,375	-	-	602,948,908
Wholesale and retail trade, repair of motor vehicles and motorcycles	189,252,170	-	20,000,000	-	209,252,170
Real estate activities	178,630,414	-	-	2,427,107	181,057,521
Agriculture, forestry and fishing	36,667,920	-	-	-	36,667,920
Construction	15,351,477	-	-	-	15,351,477
Education	11,896,965	-	-	-	11,896,965
Manufacturing	5,609,977	-	-	-	5,609,977
Accommodation & food services activities	5,137,336	-	-	-	5,137,336
Professional, scientific and technical activities	4,723,939	-	-	-	4,723,939
Transportation and storage	2,227,519	-	-	-	2,227,519
Mining and quarrying	295,624	-	-	-	295,624
Water supply, sewerage, waste management and remediation activities	256,867	-	-	-	256,867
Arts, entertainment and recreation	163,535	-	-	-	163,535

(Forward)



	2021				
	Loans and Receivables*	Advances to Banks**	Investment securities at amortized cost	Refundable deposits	Total
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	P157,067	P-	P-	P-	P157,067
Human health and social work activities	105,656	-	-	-	105,656
Information and communication	105,403	-	-	-	105,403
Electricity, gas, steam and air, conditioning supply	96,074	-	-	-	96,074
Administrative and support service activities	8,278	-	-	-	8,278
	2,118,531,680	602,928,375	20,000,000	2,427,107	2,743,887,162
Less allowance for credit losses	264,243,572	-	1,900	-	264,245,472
	P1,854,288,108	P602,928,375	P19,998,100	P2,427,107	P2,479,641,690

*Include assets of disposal group classified as held for sale
*Comprised of Due from BSP, Due from other banks and SPURA

Credit quality

In ensuring a quality investment portfolio, the Bank monitors credit risk from investment securities using credit ratings based on Standard and Poor (S&P).

Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Bank assigns the following credit quality groupings based on ratings:

Credit Quality	Fitch	Moody's	S&P	Stage
High Grade	AAA to A-	Aaa to A3	AAA to A-	1
Standard Grade	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	1
Substandard Grade	B+ to C-	B1 to Ca	B+ to C	2
Past due and impaired	D	C	D	3

For consumer loans (i.e., auto and housing) that are covered by application scorecards which provide either a pass/fail score, the basis for credit quality rating is the BSP classification and/or the status of the account.

Neither past due nor individually impaired

The Bank classifies those accounts under current status having the following loan grades:

- **High grade**
This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.

- **Standard grade**
The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past three (3) years.
- **Substandard grade**
The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.
- **Unrated grade**
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Impaired

Accounts which show evidence of impairment as of statement of financial position date.

Below are the staging parameters adopted by the Bank effective January 1, 2018 in relation to its PFRS 9 adoption.

Staging Parameter	Stage	Description
Staging by Days Past Due		<i>Applicable to all loan products.</i>
	1	Accounts with 0 – 30 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days).
	2	Accounts with 31- 90 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 2 accounts is 7 - 10 days).
	3	Accounts with days past due of 91 days and above (applicable for all loan products except for microfinance loans wherein days past due for Stage 3 accounts more than 10 days).
Staging by Status		<i>Applicable to all loan products except for Microfinance.</i>
	1	Accounts tagged as Current in its Status are classified under Stage 1.
	3	Accounts tagged as ITL in its Status are classified under Stage 3



Staging Parameter	Stage	Description
Staging by Maturity Date vs Cut-off date		
	1	<i>Applicable to all loan products.</i> If Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 30 days, the account is tagged under Stage 1 (For Microfinance loans, if Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 10 days, the account is tagged under Stage 1).
	3	If Maturity Date of the account is prior to the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 30 days, the account is tagged under Stage 3 (For Microfinance loans, if Maturity Date of the account is prior the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 10 days, the account is tagged under Stage 3).

The following tables show the credit quality per class of investments and other financial assets of the Bank:

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Standard	P860,677,828	P-	P-	P860,677,828
Due from other banks				
Standard	105,742,516	-	-	105,742,516
Securities purchased under resale agreement				
Standard	277,948,745	-	-	277,948,745
Investment securities at amortized cost				
Government securities				
Standard	-	-	-	-
Corporate bonds				
Standard	19,998,100	-	-	19,998,100
Refundable deposits				
Unrated	2,329,978	-	-	2,329,978
	P1,266,697,167	P-	P-	P 1,266,697,167
	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP*				
Standard	P400,564,592	P-	P-	P400,564,592
Due from other banks				
Standard	84,767,979	-	-	84,767,979
Securities purchased under resale agreement				
Standard	117,595,804	-	-	117,595,804
Investment securities at amortized cost				
Government securities				
Standard	-	-	-	-
Corporate bonds				
Standard	19,998,100	-	-	19,998,100
Refundable deposits				
Unrated	2,427,107	-	-	2,427,107
	P625,353,582	P-	P-	P625,353,582

*Include assets of disposal group classified as held for sale

The following tables show the credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest and discount of the Bank:

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	P-	P-	P-	P-
Standard/Medium grade	2,899,830,352	-	-	2,899,830,352
Substandard/Low grade	77,850,886	-	-	77,850,886
Past due but not impaired	-	20,545,019	-	20,545,019
Past due and impaired	-	-	226,961,766	226,961,766
	2,977,681,238	20,545,019	226,961,766	3,225,188,023
Commercial				
Neither Past Due nor Individually Impaired				
High grade	-	-	-	-
Standard/Medium grade	1,255,142	-	-	1,255,142
Substandard/Low grade	765,203	-	-	765,203
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	39,306,460	39,306,460
	2,020,345	-	39,306,460	41,326,805
Real estate				
Neither Past Due nor Individually Impaired				
High grade	-	-	-	-
Standard/Medium grade	2,980,490	-	-	2,980,490
Substandard/Low grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	4,043,805	4,043,805
	2,980,490	-	4,043,805	7,024,295
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	P-	P-	P-	P-
Standard/Medium grade	46,570,435	-	-	46,570,435
Substandard/Low grade	7,297,545	-	-	7,297,545
Past due but not impaired	-	18,314,480	-	18,314,480
Past due and impaired	-	-	35,307,696	35,307,696
	53,867,980	18,314,480	35,307,696	107,490,156
	P 3,036,550,053	P 38,859,499	P 305,619,727	P 3,381,029,279
	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers:				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	P-	P-	P-	P-
Standard/Medium grade	1,573,601,920	-	-	1,573,601,920
Substandard/Low grade	48,485,887	-	-	48,485,887
Past due but not impaired	-	26,825,152	-	26,825,152
Past due and impaired	-	-	212,295,158	212,295,158
	1,622,087,807	26,825,152	212,295,158	1,861,208,117
Commercial				
Neither Past Due nor Individually Impaired				
High grade	-	-	-	-
Standard/Medium grade	45,828,228	-	-	45,828,228
Substandard/Low grade	2,074,915	-	-	2,074,915
Past due but not impaired	-	960,935	-	960,935
Past due and impaired	-	-	53,122,981	53,122,981
	47,903,143	960,935	53,122,981	101,987,059
Real estate				
Neither Past Due nor Individually Impaired				
High grade	-	-	-	-
Standard/Medium grade	122,799,314	-	-	122,799,314
Substandard/Low grade	13,003,454	-	-	13,003,454
Past due but not impaired	-	4,317,157	-	4,317,157
Past due and impaired	-	-	2,384,645	2,384,645
	135,802,768	4,317,157	2,384,645	142,504,570



	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	P151,165	P-	P-	P151,165
Standard/Medium grade	42,289,428	-	-	42,289,428
Substandard/Low grade	8,674,657	-	-	8,674,657
Past due but not impaired	-	2,344,043	-	2,344,043
Past due and impaired	-	-	37,914,307	37,914,307
	51,115,250	2,344,043	37,914,307	91,373,600
	P1,856,908,968	P34,447,287	P305,717,091	P2,197,073,346

Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Bank's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Bank's assets and liabilities management. The Bank seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Bank also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Bank. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

Analysis of financial instruments by remaining maturities

The table below summarized the maturity profile of the Bank's financial instruments used for liquidity management based on contractual maturity except for deposit liabilities which are based on behavioral cashflow of current and savings accounts, as of December 31, 2022 and 2021:

	December 31, 2022					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
Cash and other cash items	P 123,700,910	P-	P-	P-	P-	P 123,700,910
Due from BSP*	113,677,828	747,011,125	-	-	-	860,688,953
Due from other banks	105,742,516	-	-	-	-	105,742,516
Securities purchased under resale agreement*	-	281,770,540	-	-	-	281,770,540
Investment securities at amortized cost*	-	-	-	20,753,650	-	20,753,650
Loans and receivables*	40,603,832	3,376,612,411	47,737,674	483,469,390	23,651,467	3,972,074,774
Refundable deposits*	-	-	96,000	1,666,116	2,594,000	4,356,116
	P 383,725,086	P 4,405,394,076	P 47,833,674	P 505,889,156	P 26,245,467	P 5,369,087,459
Financial Liabilities						
Deposit liabilities*	P 1,150,899,726	P 2,255,320,773	P 123,249,485	P 387,569,592	P 1,118,765	P 3,918,158,341
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Accrued expenses and other liabilities	-	-	-	-	-	-
Accrued expenses	-	38,688,494	-	-	-	38,688,494
Other liabilities**	16,798,282	30,796,829	-	59,085,655	-	106,680,766
	P 1,198,398,008	P 2,324,806,096	P 123,249,485	P 446,655,247	P 1,118,765	P 4,094,227,601

*Include future interests

**Exclude nonfinancial liabilities

	December 31, 2021					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
Cash and other cash items	P106,648,011	P-	P-	P-	P-	P106,648,011
Due from BSP*	64,564,592	336,033,600	-	-	-	400,598,192
Due from other banks	84,767,979	-	-	-	-	84,767,979
Securities purchased under resale agreement*	-	117,611,483	-	-	-	117,611,483
Investment securities at amortized cost*	-	180,876	542,628	20,596,891	-	21,320,395
Loans and receivables*	245,867,439	60,846,037	236,095,794	1,636,609,817	190,806,610	2,370,225,697
Refundable deposits*	179,656	121,000	96,000	1,590,116	2,691,000	4,677,772
	P502,027,677	P514,792,996	P236,734,422	P1,658,796,824	P193,497,610	P3,105,849,529
Financial Liabilities						
Deposit liabilities*	P1,907,982,910	P352,448,443	P239,803,884	P468,858,832	P3,229,817	P2,972,323,886
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Accrued expenses and other liabilities	-	-	-	-	-	-
Accrued expenses	-	20,183,690	-	-	-	20,183,690
Other liabilities**	1,340,334	17,552,222	-	58,602,052	-	77,494,608
	P1,940,023,244	P390,184,355	P239,803,884	P527,460,884	P3,229,817	P3,100,702,184

*Include future interests

**Exclude nonfinancial liabilities

Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities.

These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

The Bank observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Bank's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

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 instruments.

The Bank's ALCO surveys the interest rate environment, adjusts the interest rates for the Bank's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. The Bank uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book.

Earnings-at-Risk objectives and methodology

EAR is a statistical measure of the likely impact of changes in interest rates to the Bank's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that the Bank's NII could decline if interest rates decrease upon repricing. A negative repricing gap implies that the Bank's NII could decline if interest rates increase.



upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the RMC monthly, starting December 2015.

The change in interest rate is calculated using historical simulation. It is computed as the 99th percentile rank change in rates if the gap is negative (liability-sensitive) or the 1st percentile rank change in rates if the gap is positive (asset-sensitive).

The Bank's EaR figures as of December 31, 2022 and 2021 are as follows (in PHP millions):

2022				
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	P-3.55	P 0.06	P-25.49	P-32.06
2021				
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	P-0.06	P5.51	P2.78	P0.11

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank's policy is to maintain foreign currency exposure within acceptable limits.

Changes in foreign exchange rates have no significant impact on the Banks's foreign exchange gain or loss on 'Due from other banks' as of December 31, 2022 and 2021.

5. Fair Value Measurement

As of December 31, 2022 and 2021, the carrying amounts of the Bank's financial instruments are reasonable approximations of fair values except for investment securities at amortized cost, loans and receivables, refundable deposits and deposit liabilities with terms of more than one (1) year.

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

Investment securities at amortized cost - Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Receivables from customers, sales contract receivable, finance lease receivable and refundable deposits

Fair values are estimated using the discounted cash flow methodology, using the average market price of savings banks for similar types of receivables with maturities consistent to the receivable being valued. Where the instruments reprice on a short-term basis or have a relatively short maturity, the carrying amounts approximate fair values.

Time and special savings deposits

Fair values are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Investment properties

Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Bank's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made. The Bank has determined that the highest and best use of the property used for the land and building is its current use.

Financial liabilities at amortized cost except time and special savings deposits

Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

The following table summarizes the carrying amounts and fair values of loans and receivables and deposit liabilities for which carrying amounts do not approximate fair values:

	2022				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial Assets					
Investment securities at amortized cost	P19,998,100	P19,648,420	P-	P-	P19,648,420
Loans and receivables:					
Receivables from customers					
Consumption	3,225,188,023	-	-	2,910,836,450	2,910,836,450
Commercial	41,326,805	-	-	41,326,805	41,326,805
Real estate	7,024,295	-	-	7,018,297	7,018,297
Other receivables					
Sales contract receivable	8,145,504	-	-	5,845,683	5,845,683
Refundable deposits	2,330,428	-	-	2,211,870	2,211,870
Non-financial Assets					
Investment properties	98,018,374	-	-	195,149,125	195,149,125
Financial Liabilities					
Deposit liabilities					
Time	266,163,230	-	-	263,539,734	263,539,734
Savings	3,338,940,632	-	-	3,338,940,632	3,338,940,632



	2021				Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Financial Assets					
Investment securities at amortized cost	P19,998,100	P19,785,450	P-	P-	P19,785,450
Loans and receivables:					
Receivables from customers					
Consumption	1,598,612,021	-	-	1,625,665,329	1,625,665,329
Commercial	57,452,154	-	-	88,715,501	88,715,501
Real estate	141,488,213	-	-	141,766,120	141,766,120
Other receivables					
Sales contract receivable	18,431,334	-	-	13,873,900	13,873,900
Refundable deposits	2,427,107	-	-	2,063,460	2,063,460
Non-financial Assets					
Investment properties	96,715,942	-	-	196,386,264	196,386,264
Financial Liabilities					
Deposit liabilities					
Time	282,528,914	-	-	283,889,583	283,889,583
Savings	1,673,983,657	-	-	1,673,983,657	1,673,983,657

For assets and liabilities that are recognized at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole at the end of each statement of financial position).

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

Description of significant unobservable inputs to valuation:

Accounts	Valuation Technique	Significant Unobservable Inputs
Loans and receivables	Discounted cash flow method	0.97% - 9.75% risk premium rate
Investment properties		
Land	Market data approach	Price per square meter, size, shape, location, time element and discount
Building	Cost approach	Cost per square meter, size, shape, location, and time element
Deposit liabilities	Discounted cash flow method	0.25 - 3.50% Risk Premium Rate
Refundable deposits	Discounted cash flow method	7.67% - 11.00% Risk Premium Rate

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.

Significant Unobservable Inputs

Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

6. Securities Purchased Under Resale Agreement

SPURA pertains to lending to BSP and have a remaining maturity of five (5) days. As of December 31, 2022 and 2021, the fair value of the related collateral of SPURA amounted to P277.95 million and P117.60 million, respectively.

SPURA earns annual interest of 2.00% - 5.50% in 2022 and 2.00% in 2021. The interest income of the Bank from SPURA amounted to P6.36 million and P2.16 million in 2022 and 2021, respectively.

7. Investment Securities at Amortized Cost

This account consists of:

	2022	2021
Corporate bond	P20,000,000	P20,000,000
Less allowance for credit losses (Note 12)	(1,900)	(1,900)
	P19,998,100	P19,998,100

In 2022 and 2021, investment securities at amortized cost were carried at Stage 1 and there were no transfers into and out of Stage 1.

The Bank's investments in corporate bonds classified as investment securities at amortized cost bears effective interest rates of 4.52%.

In 2022 and 2021, the Bank generated interest income on investment securities at amortized cost amounting to P0.90 million and P0.89 million respectively.



The Bank has no existing investment on government securities.

8. Loans and Receivables

This account consists of:

	2022	2021
Receivables from customers:		
Consumption	P3,225,188,023	P1,774,564,246
Commercial	41,326,805	49,371,385
Real estate	7,024,295	6,473,191
	3,273,539,123	1,830,408,822
Less: Unearned interest and discount	162,909,823	71,884,075
Discount on loan modification	1,743,448	6,657,591
	3,108,885,852	1,751,867,156
Other receivables:		
Accrued interest receivable	39,722,709	48,340,615
Accounts receivable	59,621,943	16,980,148
Sales contract receivable	8,145,504	18,554,616
	3,216,376,008	1,835,742,535
Less allowance for credit losses (Note 12)	256,671,645	262,843,309
	P2,959,704,363	P1,572,899,226

As discussed in Note 24 to the financial statements, on October 21, 2021, the Bank made a strategic decision to sell selected assets and liabilities to the Parent Bank and third party as part of the overall strategies of the Bank to focus in growing DepEd Automatic Payroll Deduction System (APDS) loans. Relative to this, the Bank will transfer to the Parent Bank selected portfolios of consumption, commercial and real estate loans, and branch licenses of ten (10) regular branches and two (2) branch-lite units, including the related assets and liabilities of the branches and branch-lite units.

On March 31, 2022, LSB sold its consumer loans to the Parent Bank with a carrying value of P273.93 million. On April 30, 2022, LSB sold its microfinance loans to Malayan Savings Bank with a carrying value of P72.77 million. As a result, LSB recognized gain on sale of loans receivable amounting to P5.2 million for the year ended December 31, 2022 (see Notes 3 and 24). The sale was due to a change in the Bank's overall strategy to close its other loan products and focus on APDS loans. The remaining loans receivables of the Bank will remain to be under HTC business model – lending activities.

In July 2022, the BOD approved the change in the Bank's business model due to the Bank's overall change in strategy brought by internal and external events that changed the Bank's business and liquidity requirements to focus on growing DepEd APDS loans receivables. Based on the Bank's liquidity requirement, in order to continue grow its APDS loans receivables, the Bank plans to sell its APDS loans to the Parent Bank as the current core deposits may not be sufficient to meet the forecasted loan growth demand. As of December 31, 2022, the Bank increased its APDS loans receivable by 183.38% since the implementation on the change in strategy (loan level to P3.94 billion as of December 31, 2022 from P1.39 billion as of December 31, 2021).

As part of the overall change in the strategy of the Bank, starting July 2022 until December 2022, the Bank sold APDS loans receivable to the Parent Bank amounting P772.50 million and recognized gain on sale amounting to P4.2 million (see Note 3).

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to consumption loans follow:

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P1,535,471,751	P26,825,152	P212,267,343	P1,774,564,246
New assets originated or purchased	2,974,592,154	–	–	2,974,592,154
Assets derecognized or repaid (excluding write offs)	(1,468,252,618)	(18,972,603)	(36,743,156)	(1,523,968,377)
Transfers to Stage 1	3,089,083	(1,765,154)	(1,323,929)	–
Transfers to Stage 2	(19,323,774)	19,963,242	(639,468)	–
Transfers to Stage 3	(47,895,358)	(5,505,618)	53,400,976	–
Ending balance	P2,977,681,238	P20,545,019	P226,961,766	P3,225,188,023
Allowance for credit losses				
Beginning balance	P10,763,629	P68,980	P173,531,798	P184,364,407
Provisions for (recovery of) credit losses*				
Newly originated assets which remained in Stage 1	7,813,034	–	–	7,813,034
Newly originated assets which moved in Stage 2 and 3	–	24,903	6,335,771	6,360,674
Transfers to Stage 1	410,561	(5,179)	(405,382)	–
Transfers to Stage 2	(55,547)	184,976	(129,429)	–
Transfers to Stage 3	(417,338)	(12,551)	429,939	–
Other movements	(10,316,126)	(45,788)	(1,032,472)	(11,394,386)
Ending balance	P8,198,213	P215,341	P178,730,225	P187,143,729

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P1,336,078,643	P21,663,103	P195,347,903	P1,553,089,649
New assets originated or purchased	1,952,459,970	–	–	1,952,459,970
Assets derecognized or repaid (excluding write offs)	(1,619,452,983)	(3,739,809)	(21,148,710)	(1,644,341,502)
Transfers to Stage 1	11,325,914	(11,178,037)	(147,877)	–
Transfers to Stage 2	(22,154,826)	22,567,204	(412,378)	–
Transfers to Stage 3	(36,168,912)	(2,487,309)	38,656,221	–
Ending balance before effect of disposal group	1,622,087,806	26,825,152	212,295,159	1,861,208,117
Effect of disposal group classified as held for sale (Note 24)	(86,616,055)	–	(27,816)	(86,643,871)
Ending balance	P1,535,471,751	P26,825,152	P212,267,343	P1,774,564,246
Allowance for credit losses				
Beginning balance	P12,688,444	P171,609	P135,873,724	P148,733,777
Provisions for (recovery of) credit losses*	19,032,150	(199,616)	17,399,678	36,232,211
Transfers to Stage 1	92,772	(77,169)	(15,603)	–
Transfers to Stage 2	(138,312)	205,558	(67,246)	–
Transfers to Stage 3	(20,315,321)	(31,402)	20,346,723	–
Amounts written off	–	–	–	–
Ending balance before effect of disposal group	11,359,733	68,980	173,537,276	184,965,988
Effects of disposal group classified as held for sale (Note 24)	(596,104)	–	(5,478)	(601,582)
Ending balance	P10,763,629	P68,980	P173,531,798	P184,364,406

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses



An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to commercial loans follow:

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P-	P960,935	P48,410,450	P49,371,385
New assets originated or purchased	770,000	-	-	770,000
Assets derecognized or repaid (excluding write offs)	485,142	(195,732)	(9,103,990)	(8,814,580)
Transfers to Stage 1	765,203	(765,203)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Ending balance	P2,020,345	P-	P39,306,460	P41,326,805
Allowance for credit losses				
Beginning balance	P-	P38	P43,255,540	P43,255,578
Provisions for (recovery of) credit losses*				
Newly originated assets which remained in stage 1	8,243	-	-	8,243
Newly originated assets which moved in stage 2 & 3	-	-	-	-
Transfers to Stage 1	270	(270)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Other Movements	169	232	(5,101,195)	(5,100,794)
Ending balance	P8,682	P-	P38,154,345	P38,163,027

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P78,529,587	P6,488,228	P66,818,532	P151,836,347
New assets originated or purchased	55,010,890	-	-	55,010,890
Assets derecognized or repaid (excluding write offs)	(84,699,755)	(5,209,607)	(14,950,816)	(104,860,178)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(937,579)	(317,686)	1,255,265	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	47,903,143	960,935	53,122,981	101,987,059
Effects of disposal group classified as held for sale (Note 24)	(47,903,143)	-	(4,712,531)	(52,615,674)
Ending balance	P-	P960,935	P48,410,450	P49,371,385
Allowance for credit losses				
Beginning balance	P293,192	P1,632,500	P50,532,022	P52,457,714
Provisions for credit losses*	377,989	(1,632,500)	(7,695,717)	(8,950,228)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(38)	38	-	-
Transfers to Stage 3	(434,930)	-	434,930	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	236,213	38	43,271,235	43,507,486
Effects of disposal group classified as held for sale (Note 24)	(236,213)	-	(15,695)	(251,908)
Ending balance	P-	P38	P43,255,540	P43,255,578

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to real estate loans follow:

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P413,389	P4,317,157	P1,742,645	P6,473,191
New assets originated or purchased	2,662,000	-	-	2,662,000
Assets derecognized or repaid (excluding write offs)	2,655,547	(4,317,157)	(449,286)	(2,110,896)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(2,750,446)	-	2,750,446	-
Amounts written off	-	-	-	-
Ending balance	P2,980,490	P-	P4,043,805	P7,024,295
Allowance for credit losses				
Beginning balance	P-	P9,417	P649,331	P658,748
Provision for (recovery of) credit losses*				
Newly originated assets which remained in stage 1	10,019	-	-	10,019
Newly originated assets which moved in stage 2 & 3	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Other Movements	-	(9,417)	252,113	242,696
Ending balance	P10,019	P-	P901,444	P911,463

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P82,670,110	P-	P2,052,748	P84,722,858
New assets originated or purchased	112,670,200	-	-	112,670,200
Assets derecognized or repaid (excluding write offs)	(59,537,542)	4,317,157	331,897	(54,888,488)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	135,802,768	4,317,157	2,384,645	142,504,570
Effects of disposal group classified as held for sale (Note 24)	(135,389,379)	-	(642,000)	(136,031,379)
Ending balance	P413,389	P4,317,157	P1,742,645	P6,473,191
Allowance for credit losses				
Beginning balance	P157,214	P-	P681,751	P838,965
Provision for (recovery of) credit losses*	434,270	-	(141,017)	293,253
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(9,417)	9,417	-	-
Transfers to Stage 3	(180,556)	-	180,556	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	401,511	9,417	721,290	1,132,218
Effects of disposal group classified as held for sale (Note 24)	(401,511)	-	(71,959)	(473,470)
Ending balance	P-	P9,417	P649,331	P658,748

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses



An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to other receivables follow:

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P43,695,637	2,344,042	37,835,700	P83,875,379
New assets originated or purchased	39,484,364	—	—	39,484,364
Assets derecognized or repaid (excluding write offs)	(886,469)	(1,755,363)	(13,227,755)	(15,869,587)
Transfers to Stage 1	978,869	(129,196)	(849,673)	—
Transfers to Stage 2	(18,243,931)	18,252,859	(8,928)	—
Transfers to Stage 3	(11,160,490)	(397,862)	11,558,352	—
Amounts written off	—	—	—	—
Ending balance	P53,867,980	P18,314,480	P35,307,696	P107,490,156
Allowance for credit losses				
Beginning balance	P1,208,561	P236,265	P33,119,751	P34,564,577
Provisions for (recovery of) credit losses*				
Newly originated assets which remained in stage 1	1,648,661	—	—	1,648,661
Newly originated assets which moved in stage 2 & 3	—	623,516	1,902,323	2,525,839
Transfers to Stage 1	9,691	(5,300)	(4,391)	—
Transfers to Stage 2	(13,230)	13,234	(4)	—
Transfers to Stage 3	(721,168)	(63,580)	784,748	—
Other Movements	(320,359)	(167,382)	(7,797,909)	(8,285,651)
Ending balance	P1,812,156	P636,753	P28,004,518	P30,453,426

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P93,190,462	2,774,468	49,004,149	P144,969,079
New assets originated or purchased	20,170,525	—	—	20,170,525
Assets derecognized or repaid (excluding write offs)	(97,964,475)	(1,307,314)	25,505,785	(73,766,004)
Transfers to Stage 1	48,188,740	(674,791)	(47,513,949)	—
Transfers to Stage 2	(891,671)	2,295,458	(1,403,787)	—
Transfers to Stage 3	(11,578,331)	(743,779)	12,322,110	—
Amounts written off	—	—	—	—
Ending balance before effect of disposal group	51,115,250	2,344,042	37,914,308	91,373,600
Effects of disposal group classified as held for sale (Note 24)	(7,419,613)	—	(78,608)	(7,498,221)
Ending balance	P43,695,637	2,344,042	37,835,700	P83,875,379
Allowance for credit losses				
Beginning balance	P891,759	P166,158	P32,449,668	P33,507,585
Provisions for (recovery of) credit losses*	(4,109,046)	(1,315,039)	6,554,380	1,130,295
Transfers to Stage 1	5,130,769	(5,042)	(5,125,727)	—
Transfers to Stage 2	(5,151)	1,393,006	(1,387,855)	—
Transfers to Stage 3	(647,159)	(2,818)	649,977	—
Amounts written off	—	—	—	—
Ending balance before effect of disposal group	1,261,172	236,265	33,140,443	34,637,880
Effects of disposal group classified as held for sale (Note 24)	(52,611)	—	(20,692)	(73,303)
Ending balance	P1,208,561	P236,265	P33,119,751	P34,564,577

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses

Sales contract receivable earns interest at annual fixed rates ranging from 10.00% to 14.00% in 2022 and 2021.

Interest income on loans and receivables consists of:

	2022	2021
Receivables from customers:		
Consumption	P305,990,304	P290,082,687
Commercial	1,730,153	4,801,412
Real estate	2,346,284	8,477,536
Accretion of interest on the modified loans	4,914,141	17,739,500
Sales contract receivable	1,599,783	2,867,637
	P316,580,665	P323,968,772

On March 25, 2020, Republic Act No. 11469, otherwise known as the 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 and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (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, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

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. Total modification losses resulting from Bayanihan 1 Act and Bayanihan 2 Act amounted to P79.84 million. Accretion of interest on the receivables from customers amounted to P4.91 million and P17.74 million in 2022 and 2021, respectively.

9. Property and Equipment

The composition of and movements in this account follow:

	2022					
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 21)
Cost						
Balances at beginning of year	P16,288,171	P9,779,785	P83,690,890	P14,532,963	P40,177,303	P51,720,147
Additions	—	145,000	1,316,304	471,850	459,324	14,984,453
Disposals	—	—	(195,776)	(260,238)	—	—
Reclassifications	—	—	233,507	—	(233,507)	—
Effect of cessation of assets in disposal group (Note 24)	4,066,356	9,460,538	49,292,158	4,184,506	43,812,540	32,559,699
Balances at end of year	20,354,527	19,385,323	134,337,083	18,929,081	84,215,660	99,264,299
Accumulated depreciation and amortization						
Balances at beginning of year	—	2,452,245	71,846,729	9,899,684	20,203,781	18,781,584
Depreciation and amortization	—	705,368	10,451,437	2,776,869	10,869,408	15,119,511
Disposals	—	—	(195,759)	(194,636)	—	—
Reclassifications	—	—	185,107	—	(185,107)	—
Effect of cessation of assets in disposal group (Note 24)	—	8,241,920	43,563,143	2,396,828	30,183,850	15,783,831
Balances at end of year	—	11,399,533	125,850,657	14,878,745	61,071,932	49,684,926

(Forward)



	2022						Total
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 21)	
Allowance for impairment losses (Note 12)							
Balance at beginning of year	P9,670,698	P166,982	P-	P87,500	P-	P-	P9,925,180
Reclassification	-	-	-	-	-	-	-
Effect of cessation of assets in disposal group (Note 24)	1,714,356	1,027,555	-	-	-	-	2,741,911
Balance at end of year	11,385,054	1,194,537	-	87,500	-	-	12,667,091
Net book value at end of year	P8,969,473	P6,791,253	P8,486,426	P3,962,836	P23,143,728	P49,579,373	P100,933,089
	2021						Total
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 20)	
Cost							
Balance at beginning of year	P20,354,527	P19,174,702	P123,509,918	18,880,020	P80,592,014	P71,935,864	P334,447,045
Additions	-	65,621	9,849,569	304,734	4,221,957	11,011,703	25,453,584
Disposals/Modifications	-	-	(582,289)	(2,122,285)	-	1,332,279	(1,372,295)
Reclassifications (Note 11)	-	-	205,850	1,655,000	(824,128)	-	1,036,722
Effect of disposal group classified as held for sale (Note 24)	(4,066,356)	(9,460,538)	(49,292,158)	(4,184,506)	(43,812,540)	(32,559,699)	(143,375,797)
Balance at end of year	16,288,171	9,779,785	83,690,890	14,532,963	40,177,303	51,720,147	216,189,259
Accumulated depreciation and amortization							
Balance at beginning of year	-	9,906,826	101,792,498	11,075,049	39,360,016	21,301,934	183,436,323
Depreciation and amortization	-	787,339	14,199,624	2,537,917	11,033,742	13,843,975	42,402,597
Disposals/Modifications	-	-	(582,255)	(1,914,232)	-	(580,494)	(3,076,981)
Reclassifications (Note 11)	-	-	5	597,778	(6,127)	-	591,656
Effect of disposal group classified as held for sale (Note 24)	-	(8,241,920)	(43,563,143)	(2,396,828)	(30,183,850)	(15,783,831)	(100,169,572)
Balance at end of year	-	2,452,245	71,846,729	9,899,684	20,203,781	18,781,584	123,184,023
Allowance for impairment losses (Note 12)							
Balance at beginning of year	11,385,054	1,194,537	-	-	-	-	12,579,591
Reclassification	-	-	-	87,500	-	-	87,500
Effect of disposal group classified as held for sale (Note 24)	(1,714,356)	(1,027,555)	-	-	-	-	(2,741,911)
Balance at end of year	9,670,698	166,982	-	87,500	-	-	9,925,180
Net book value at end of year	P6,617,473	P7,160,558	P11,844,161	P4,545,279	P19,973,522	P32,938,563	P83,080,056

Gain on sale of items of property and equipment reported under 'Profit from assets sold' amounted to P0.06 million and P0.40 million in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the cost of fully depreciated items of property and equipment still in use amounted to P138.83 million and P119.27 million, respectively.

The details of depreciation and amortization follow:

	2022	2021
Property and equipment	P39,922,593	P42,402,597
Repossessed chattels (Note 11)	148,444	2,051,282
Software costs (Note 11)	1,391,240	1,927,038
Investment properties (Note 10)	553,752	925,570
	P42,016,029	P47,306,487

10. Investment Properties

The composition of and movements in this account follow:

	2022		
	Land	Building	Total
Cost			
Balance at beginning of year	P106,877,367	P21,987,077	P128,864,444
Additions	9,703,100	-	9,703,100
Disposals	(5,601,553)	(3,457,801)	(9,059,354)
Balance at end of year	110,978,914	18,529,276	129,508,190
Accumulated depreciation			
Balance at beginning of year	-	18,374,151	18,374,151
Depreciation (Note 9)	-	553,752	553,752
Disposals	-	(1,063,518)	(1,063,518)
Balance at end of year	-	17,864,385	17,864,385
Allowance for impairment losses (Note 12)			
Balance at beginning of year	13,676,242	98,109	13,774,351
Provision for the year	-	-	-
Disposals	(113,218)	(35,702)	(148,920)
Balance at end of year	13,563,024	62,407	13,625,431
Net book value at end of year	P97,415,890	P602,484	P98,018,374
	2021		
	Land	Building	Total
Cost			
Balance at beginning of year	P123,977,054	P25,202,720	P149,179,774
Additions	9,118,000	5,882,857	15,000,857
Disposals	(26,217,687)	(9,098,500)	(35,316,187)
Balance at end of year	106,877,367	21,987,077	128,864,444
Accumulated depreciation			
Balance at beginning of year	-	19,642,354	19,642,354
Depreciation (Note 9)	-	925,570	925,570
Disposals	-	(2,193,773)	(2,193,773)
Balance at end of year	-	18,374,151	18,374,151
Allowance for impairment losses (Note 12)			
Balance at beginning of year	23,324,276	399,431	23,723,707
Provision for the year	6,221	-	6,221
Disposals	(9,654,255)	(301,322)	(9,955,577)
Balance at end of year	13,676,242	98,109	13,774,351
Net book value at end of year	P93,201,125	P3,514,817	P96,715,942

Rental income on investment properties included in other income under 'Miscellaneous income' amounted to P0.03 million and P0.07 million in 2022 and 2021, respectively (see Note 18).

Direct operating expenses on investment properties under 'Miscellaneous expense' amounted to P1.62 million and P2.04 million in 2022 and 2021, respectively (see Note 18).

Net gain from sale of investment properties reported under 'Profit from assets sold' amounted to P1.26 million and P16.18 million in 2022 and 2021, respectively.



gain on foreclosure of investment properties reported under 'Gain on foreclosure - net' in the statements of income amounted P3.95 million and P6.70 million in 2022 and 2021, respectively.

11. Other Assets

This account consists of:

	2022	2021
Branch licenses	P16,810,000	P16,810,000
Prepaid expenses	3,541,478	4,601,000
Refundable deposits	2,329,978	2,427,107
Software costs - net	1,292,885	1,259,378
Repossessed chattels - net	847,565	593,093
Documentary stamps	739,464	591,680
Others	8,038,387	150,334,357
	33,599,757	176,616,615
Allowance for impairment losses (Note 12)	(15,976,499)	(162,054,000)
	P17,623,258	P14,562,615

'Others' mainly represent miscellaneous assets in process of reconciliation which have been fully provided for as of December 31, 2022 and 2021.

'Allowance for impairment losses' amount pertain to allowance for impairment losses of branch licenses and other assets combined. There were no provisions recorded for 2022 and 2021, and during the current year the Bank written-off its allowance for impairment losses on other assets amounting to P146.08 million. As of December 31, 2022 and 2021, the Bank reported allowance for impairment losses amounting to P15.98 million and P162.05 million, respectively (see Note 12).

Movements in 'Repossessed chattels' follow:

	2022	2021
Cost		
Balances at beginning of year	P1,854,490	P5,453,490
Additions	996,000	2,393,000
Disposals	(1,835,000)	(4,337,000)
Reclassifications (Note 9)	-	(1,655,000)
Balances at end of year	1,015,490	1,854,490
Accumulated depreciation		
Balances at beginning of year	1,230,652	1,415,435
Depreciation (Note 9)	148,444	2,051,282
Disposals	(1,212,472)	(1,638,287)
Reclassifications (Note 9)	-	(597,778)
Balances at end of year	166,624	1,230,652
Allowance for impairment losses (Note 12)		
Balances at beginning of year	30,745	226,907
Provisions for the year	-	-
Disposals	(29,444)	(108,662)
Reclassifications	-	(87,500)
Balances at end of year	1,301	30,745
Net book value at end of year	P847,565	P593,093

Net gain from sale of repossessed chattel reported under 'Profit from assets sold' amounted to P0.44 million and P0.01 million in 2022 and 2021, respectively.

Loss on foreclosure of repossessed chattels reported under 'Gain on foreclosure - net' in the statement of income amounted to P0.57 million and P0.70 million in 2022 and 2021, respectively.

Movements in 'Software costs' follow:

	2022	2021
Cost		
Balances at beginning of year	P22,582,536	P20,603,801
Additions	1,424,746	1,978,734
Balances at end of year	24,007,282	22,582,535
Accumulated amortization		
Balances at beginning of year	21,323,157	19,396,119
Amortization (Note 9)	1,391,240	1,927,038
Balances at end of year	22,714,397	21,323,157
Net book value at end of year	P1,292,885	P1,259,378

12. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	2022	2021
Balances at beginning of year		
Investment at amortized cost (Note 7)	P1,900	P1,900
Loans and receivables (Note 8)	262,843,309	235,538,042
Property and equipment (Note 9)	9,925,180	12,579,591
Investment properties (Note 10)	13,774,351	23,723,707
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	30,745	226,907
Other assets (Note 11)	146,154,000	146,154,000
	448,629,485	434,124,147
Provisions for the year (Notes 8 and 10)	(181,936)	28,711,751
Derecognition of allowance on Loans and receivables	(9,449,177)	(10,064,239)
Reversal of allowance on assets sold (Notes 10 and 11)	(178,364)	-
Effect of accounting for the assets for disposal group held for sale under PFRS 5 (Note 24)	4,142,174	(4,142,174)
Accounts written-off	(144,018,315)	-
Balances at end of year		
Investment securities at amortized cost (Note 7)	1,900	1,900
Loans and receivables (Note 8)	256,671,645	262,843,309
Property and equipment (Note 9)	12,667,091	9,925,180
Investment properties (Note 10)	13,625,431	13,774,351
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	1,301	30,745
Other assets (Note 11)	76,499	146,154,000
	P298,943,867	P448,629,485



A reconciliation of the allowance for credit losses by class of loans and receivables in 2022 and 2021 follows:

	2022				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	P185,603,712	P43,271,273	P730,707	P34,637,880	P264,243,572
Provisions	3,745,039	47,563	156,858	(4,131,396)	(181,936)
Reversals	(8,855,383)	(231,913)	(361,881)	—	(9,449,177)
Reallocation of allowance	6,669,063	(4,932,578)	375,760	(53,059)	2,059,186
Balances at end of year	P187,162,431	P38,154,345	P901,444	P30,453,425	P256,671,645

	2021				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	P148,733,777	52,457,715	P838,965	P33,507,585	P235,538,042
Provisions	36,869,935	(9,186,442)	(108,258)	1,130,295	28,705,530
Balances at end of year	P185,603,712	P43,271,273	P730,707	P34,637,880	P264,243,572

Below is the breakdown of provision for credit and impairment losses:

	2022	2021
Loans and receivables (Note 8)	(P181,936)	P28,705,530
Investment securities at amortized cost (Note 7)	—	6,221
	(P181,936)	P28,711,751

13. Deposit Liabilities

Of the total deposit liabilities of the Bank as of December 31, 2022 and 2021, 70.48% and 47.07%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates ranging from 3.50% in 2022 and 3.50% in 2021.

The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDA) with the BSP and any government securities which are previously used as compliance until they mature. As of December 31, 2022 and 2021, the Bank was in compliance with such regulations.

As of December 31, 2022 and 2021, the Bank's liquidity and statutory reserves as reported to the BSP amounting to P113.58 million and P64.69 million, respectively, are included under 'Due from BSP'.

The Bank has no secured liabilities and assets pledged as a security.

Interest expense on deposit liabilities consists of:

	2022	2021
Time	P43,074,672	P15,065,096
Savings	13,137,910	15,265,351
	P56,212,582	P30,330,447

14. Accrued Expenses and Other Liabilities

Accrued expenses account consists of:

	2022	2021
Accrued expenses	P29,594,537	P17,971,024
Accrued interest payable	7,936,036	2,212,666
	P37,530,573	P20,183,690

Accrued expenses consist of accruals for professional fees and other administrative expenses.

Accrued interest payable pertains to accruals of interest expense on deposit liabilities (see Note 13).

Other liabilities account consists of:

	2022	2021
Lease liability (Note 21)	P59,085,655	P38,119,662
Accounts payable	29,594,556	17,552,222
Retirement liability (Note 20)	15,817,444	28,957,526
Withholding taxes and other taxes payable	2,360,194	1,062,104
Income tax payable	673,722	357,523
Others	980,837	1,340,334
	P108,512,408	P87,389,371

Interest expense on lease liability amounted to P4.39 million and P4.59 million in 2022 and 2021, respectively (see Note 21).

Accounts payable consist of payables to service providers and advance payments from customers.

Others consist mainly of payables to agencies servicing employee welfare such as Social Security System, Home Development Mutual Fund and Medicare.

The Bank has no secured liabilities and assets pledged as a security.

15. Redeemable Preferred Shares

The details of the Bank's redeemable preferred shares follow:

	Shares	Amount
Preferred stock - P1,000 par value		
Authorized	50,000	P50,000,000
Issued and outstanding		
Balances at beginning and end of year	30,700	P30,700,000

The preferred stock has the following features:

- The minimum subscription is 100 shares and payable in cash;
- The shares shall earn a monthly interest at a rate to be fixed by the BOD, but such interest shall not be less than the prevailing market interest rates and said shares shall not be treated as time deposit, deposit substitute or as other form of borrowings;
- The interest shall be paid in the form of dividends cumulatively, which may be declared annually or as often as the BOD may determine;



- d. The shares shall have preference in the distribution of dividends and in the distribution of assets in case of liquidation or dissolution, provided, however that no dividend shall be declared or paid on redeemable shares in the absence of sufficient undivided profits, free surplus and approval of the BSP;
- e. The shares are non-voting on matters provided for in the last paragraph of Section 6 of the Corporation Code;
- f. Pre-emptive rights are not available on preferred shares nor shall they be subject to one and the shares shall be held for five (5) years with a right of alienation or encumbrance of the same to any third person within the period of five (5) years from the original date of subscription, provided, however, that on the 5th year the holder shall be obliged to surrender the same to the corporation and upon prior approval of the BSP and in compliance with the provisions of the Manual of Regulations for Banks (MORB) and the BSP's circulars regarding this matter, the corporation shall be obliged to take up the subscription at the price when the preferred shares of stock were originally subscribed. Provided that shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption and provided further, that the corporation is not insolvent or if such redemption will not cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature; and
- g. As of December 31, 2022, the Bank has not yet created a sinking fund pending request from the BSP to redeem and retire the preferred shares. The fund that will be used to redeem the preferred shares will be taken from the equity infused by the Parent Bank.

The shares may again be disposed of by the Bank for a price fixed by the BOD. Based on the BOD resolution on March 6, 2013, the entire redeemable preferred shares of the Bank will be retired after its redemption subject to BSP's approval. As of December 31, 2022 and 2021 the entire redeemable preferred shares are still subject to BSP's approval.

As of December 31, 2022 and 2021 the Parent Bank owns 30,200 shares or P30.20 million of the outstanding redeemable preferred shares of the Bank.

16. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statements of financial position date (amounts in millions):

	December 31, 2022			December 31, 2021		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial assets						
Cash and other cash items	P 124	P-	P 124	P107	P-	P107
Due from BSP	861	-	861	401	-	401
Due from other banks	106	-	106	85	-	85
Securities purchased under resale agreement	278	-	278	118	-	118
Investment securities at amortized cost	20	-	20	-	20	20
Loans and receivables	338	3,043	3,381	457	1,740	2,197
Other assets	-	2	2	-	2	2
	1,727	3,045	4,772	1,168	1,762	2,930

(Forward)

	December 31, 2022			December 31, 2021		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-financial assets						
Property and equipment - net	P-	P377	P377	P-	P359	P359
Investment properties	-	130	130	-	129	129
Deferred tax asset	-	84	84	-	143	143
Other assets	12	42	54	196	1	197
	12	633	645	196	632	828
	P1,739	P3,678	P5,417	P1,364	P2,394	P3,758
Less:						
Unearned interest and discount	P	P	P163	P	P	P79
Discount on loan modification	-	-	2	-	-	-
Accumulated depreciation and amortization	-	-	304	-	-	264
Allowance for credit and impairment losses	-	-	299	-	-	453
	P-	P-	P4,649	P-	P-	P2,962
Financial liabilities						
Deposit liabilities	P3,523	P352	P3,875	P1,754	P432	P2,186
Redeemable preferred shares	31	-	31	31	-	31
Lease liabilities	2	57	59	2	56	59
Accrued expenses	38	-	38	20	-	20
Other liabilities	31	-	31	19	-	19
	3,625	409	4,034	1,826	488	2,315
Non-financial liabilities						
Other liabilities	2	16	18	2	29	31
	P3,627	P425	P4,052	P1,828	P517	P2,346

17. Equity

Capital Stock

Details of the Bank's capital stock as of December 31, 2022 and 2021 follow:

	Shares	Amount
Common stock - P100.00 par value		
Authorized	20,000,000	P2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	P1,245,960,000

Surplus Reserve

The Bank's accumulated reserves amounting to P6.45 million was appropriated under the old management and BOD in previous years, prior to the acquisition by the Parent Bank.

As provided in the Articles of Incorporation, the Bank shall accumulate and maintain a surplus reserve of not less than 5.00% of its total assets and shall be available for meeting losses incurred by the Bank. Upon the required amount thereof being reached, a sinking fund pursuant to the BSP rules and regulations shall be set aside in the amount necessary for the redemption of redeemable preferred shares. The BOD may, at its discretion, provide for such other reserves as it may seem necessary. The appointment of net earnings for such reserves shall be made before effecting the distribution of net earnings.

The Bank is presently reviewing the propriety of this provision. Any required revision will be recommended for approval to the Bank's BOD and stockholders. No additional appropriation has been made as of December 31, 2022 and 2021.



Under BSP Circular No. 1011, the Bank shall treat Stage 1 provisions for loan accounts as General Provisions (GP) while Stage 2 and 3 provisions shall be treated as Specific Provisions (SP). The Bank shall set up GLLP equivalent to 1.00% of all outstanding on-balance sheet loan accounts, except for accounts considered as credit risk-free under existing regulations. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1.00% required GP, the deficiency shall be recognized by appropriating the 'Surplus Reserve' account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in surplus shall be considered as Tier 2 capital subject to the limit provided under the CAR framework.

In 2022 and 2021, the Bank's allowance for credit losses is less than the required GP of 1.00% for Stage 1 accounts amounting to P8.22 million and P10.76 million, respectively. There were no retained earnings appropriations in 2022 and 2021 since the Bank is in a deficit position.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and to maximize shareholder's value.

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

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular is effective on January 1, 2014. Effective January 1, 2014, the Bank followed the same risk-based capital adequacy framework adopted by its Parent Bank.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The table below shows the Bank's CAR as of December 31, 2022 and 2021 as reported to the BSP (amounts in millions).

	2022	2021
Tier 1 capital	P516	P477
Tier 2 capital	12	21
Gross qualifying capital	528	498
Less required deductions	—	—
Total qualifying capital	P528	P498
Risk weighted assets	P3,997	P2,607
Common Equity Tier 1 ratio	12.90%	18.27%
Tier 1 capital ratio	12.90%	18.27%
Tier 2 capital ratio	0.29%	0.79%
Risk-based capital adequacy ratio	13.19%	19.06%

The computed CAR of 13.19% and 19.06% as of December 31, 2022 and 2021, respectively, as reported to the BSP, were based on the commercial bank's CAR template as required by the BSP since the Parent Bank is a commercial bank.

Regulatory capital consists of Tier 1 capital, which comprises paid-up common stock, surplus, surplus reserves including current year profit, less required deductions total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI.

The other component of regulatory capital is Tier 2 capital, which represents the general loan loss provisions capped at a maximum of 1.00% of gross risk weighted assets. The general loan loss provisions are based on regulatory accounting principle.

On May 22, 2014, the MB of the BSP approved the adoption of a prudential Real Estate Stress Testing (REST) limit for universal/commercial banks and thrift banks on a solo and consolidated basis on their aggregate real estate exposures, as provided under BSP Circular No. 839, Real Estate Stress Test Limit for Real Estate Exposures, dated June 27, 2014. The REST limit combines a macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. The Circular sets out a minimum REST limit of 6.00% CET1 capital ratio and 10.00% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.00% on the Bank's real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the BSP issued amendments to Circular No. 854 which requires a new minimum capitalization for Banks. The Bank, as a thrift bank with 11 to 100 branches, was required to increase its capitalization to P400.00 million. The Bank has complied with this requirement.

On June 9, 2015, the BSP issued Circular No. 881, Implementing Guidelines on the Basel III Leverage Ratio Framework, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.00%. The Bank has complied with this requirement.

Leverage Ratio

On June 9, 2015, BSP issued circular No. 881, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict



the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio was implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

The BLR of the Bank as of December 31, 2022 and 2021 as reported to the BSP are shown in the table below (amounts in millions).

	2022	2021
Tier I capital	P516	P477
Exposure measure	4,898	2,947
Leverage ratio	10.52%	19.38%

Liquidity Coverage Ratio (LCR)

BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%.

As of December 31, 2022 and 2021, the LCR as reported to the BSP is 204.28% and 318.86% respectively.

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards NSFR. The NSFR is aimed to promote long term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

As of December 31, 2022 and 2021, the NSFR as reported to the BSP is 111.09% and 116.86%, respectively.

18. Income and Expenses

Service fees and commission income consists of:

	2022	2021
Service fees and commission income:		
Deposit-related	P1,709,286	P1,532,867
Commissions	7,773,353	44,002
	9,482,639	1,576,869
Service fees and commission expense:		
Banking fees	(12,830,422)	(9,184,494)
	(P3,347,783)	(P7,607,625)

Miscellaneous income consists of:

	2022	2021
ATM transaction fees	P8,062,992	P7,689,587
Penalties	3,889,978	5,961,773
Recovery on charged-off assets	989,244	1,290,305
Income on sale of checkbook	269,592	335,232
Others (Note 10)	1,819,273	4,199,469
	P15,031,079	P19,476,366

Others include rental income from investment properties, other loan fees and surcharges.

Miscellaneous expenses consist of:

	2022	2021
Stationery and supplies	P2,957,501	P3,630,093
Fines, penalties and other charges	1,949,200	1,386,807
Litigation and other expense on assets acquired (Note 10)	1,703,150	2,489,527
Documentary stamp used	669,501	158,472
Advertising	450,987	468,608
Membership fees and dues	201,378	411,165
Others	1,487,932	3,069,024
	P9,419,649	P11,613,696

Other expenses include sponsorship expenses, appraisal fees, donations, periodicals and magazines.

19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control of common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

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

Details on significant related party transactions of the Bank follow:



Related Party	Nature of Transaction	Terms and Condition	2022		2021	
			Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Parent	Accounts receivable	Unsecured, noninterest-bearing, payable on demand	(P1,892,197)	P2,493,696	(P3,140,334)	P4,385,893
	Accounts payable	Unsecured, noninterest-bearing, payable on demand	(5,074,000)	3,542,157	3,108,699	8,616,156
	Due from other banks	Regular checking account, non-interest bearing	(3,004,235)	3,837,536	(2,243,356)	6,841,771
Key employees	Receivables from customers	Personal loans to directors, officers and stockholders with interest rates ranging 6.25% - 9.00%; Secured and unimpaired	7,908,178	12,949,845	496,622	5,041,667
Key employees	Deposit liabilities	Deposits of directors, officers and stockholders with interest rates ranging 0.5% - 5.5%	1,360,458,007	1,361,911,759	113,925	1,453,752
	Interest income	Interest earned from loans of directors, officers and stockholders	150,469	-	367,028	-
	Interest expense	Interest expense on deposit liabilities	3,662,328	-	3,531	-
	Compensation and fringe benefits	Remuneration and benefits to directors and key management personnel	10,786,594	-	13,970,041	-
	Post-employment benefits	Post-employment benefits	3,782,313	-	1,632,414	-

20. Retirement Liability

The Bank has noncontributory defined benefit plan covering all its regular and permanent employees. Under the retirement plan, all employees are entitled to cash benefits after satisfying certain age and service requirements.

The existing regulatory framework, Republic Act (RA) 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, otherwise known as the Labor Code of the Philippines*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law.

The law does not require minimum funding of the plan.

The latest actuarial valuation of the retirement plan of the Bank was made as of December 31, 2022.

The status and amounts recognized in the statement of financial position for retirement liability are as follows:

	2022	2021
Balance at beginning of year	P 28,957,526	P22,642,535
Net benefit cost in statement of income*		
Current service cost	3,323,959	4,317,078
Net interest cost	1,098,722	
Settlement loss	6,642,728	926,709
	11,065,409	5,243,787
Contribution	-	-
Benefits paid directly from book reserve – settlements	(11,435,321)	(123,572)
	(369,912)	5,120,215
Remeasurements in OCI		
Actuarial changes arising from:		
Changes in financial assumptions	(4,069,943)	(7,395,852)
Experience adjustments	(1,970,667)	(328,412)
Changes in demographic assumptions	(8,079,963)	10,692,265
Actual return on plan assets	1,350,403	(1,773,225)
	(12,770,170)	1,194,776
Balance at end of year	P15,817,444	P28,957,526

* The net benefit cost is recorded under 'Compensation and fringe benefits' in the statements of income.

Movements in 'Remeasurement gains (losses) on retirement liability' in OCI follows:

	2022	2021
Balance at beginning of year	(P6,350,493)	(P5,090,784)
Remeasurement gain (loss) on retirement liability		
Due to changes in financial assumptions	4,069,943	7,395,852
Due to changes in experience adjustments	1,970,667	328,412
Due to changes in demographic assumptions	8,079,963	(10,692,265)
Actual return on plan assets	(1,350,403)	1,773,225
Remeasurement loss during the year	12,770,170	(1,194,776)
Tax effect	(3,192,543)	298,694
Remeasurement losses on retirement liability during the year, net of tax	9,577,627	(896,082)
Impact of CREATE	-	(363,627)
Total remeasurement losses, net of tax	9,577,627	(1,259,709)
Balance at end of year, net of tax	P3,227,134	(P6,350,493)



The principal actuarial assumptions used in determining retirement liability of the Bank as of January 1, 2022 and 2021 are shown below:

	2022	2021
Average remaining working life in years	27.5	28.6
Discount rate	5.20%	3.94%
Salary rate increase	5.70%	5.70%

The principal actuarial assumptions used in determining the retirement liability of the Bank as of December 31, 2022 and 2021 are shown below:

	2022	2021
Average remaining working life in years	26.9	27.5
Discount rate	7.24%	5.20%
Salary rate increase	5.70%	5.70%

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

		Impact to DBO	
Increase (Decrease)		2022	2021
Discount rate	1.00%	(P1,398,448)	(P4,554,963)
	(1.00%)	1,609,819	5,690,156
Salary increase rate	1.00%	1,618,576	5,600,835
	(1.00%)	(1,430,054)	(4,574,445)

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

	2022	2021
Less than 1 year	P609,453	P195,896
More than 1 year to 5 years	5,460,082	3,523,086
More than 5 years to 10 years	17,702,473	18,571,370
More than 10 years to 15 years	21,856,942	32,659,448
More than 15 years to 20 years	23,594,138	50,335,699
More than 20 years	38,364,532	382,696,218

The Bank's weighted average duration of the defined benefit obligation is equivalent to 9.5 years and 16.8 years in 2022 and 2021, respectively.

21. Leases

Bank as a Lessee

The Bank leases its head office and branch premises for periods ranging from five (2) to fifteen (15) years, renewable upon mutual agreement of both parties. Various lease contracts include escalation clauses, most of which bear annual rent increase ranging from 5.00% to 10.00%.

The Bank also has certain leases of building and branch premises with remaining lease terms of 12 months or less and leases with low value assets. The Bank applies the recognition exemptions for these types of leases. Rent expense charged against current operations (included in 'Occupancy and equipment-related' expenses in the statements of income) amounted to P4.16 million and P6.97 million in 2022 and 2021, respectively. Rent expense in 2022 pertains to expenses from short-term leases and leases of low-value assets.

The estimated minimum future annual rentals payable under non-cancellable leases follow:

	2022	2021
Within one year	P2,213,924	P2,438,434
Beyond one year but not more than five years	60,636,471	32,616,663
More than five years	6,167,616	35,561,465
	P69,018,011	P70,616,562

Right-of-use Assets

Details of the carrying amounts of right-of-use assets recognized and the movements during the year ended December 31, 2022 are disclosed in Note 9.

Lease Liabilities

As of December 31, 2022, the carrying amount of lease liabilities follow:

	2022	2021
Balance at beginning of year	P38,119,662	P57,850,651
Additions	14,987,468	10,847,282
Interest expense (Note 14)	4,393,452	4,590,992
Modifications/lease concessions	-	2,132,464
Payments	(18,897,317)	(16,819,337)
Effect of liabilities in disposal in group (Note 24)	20,482,390	(20,482,390)
	P59,085,655	P38,119,662

22. Income and Other Taxes

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

Current tax regulations provide that the RCIT rate shall be 25.00% and interest allowed as a deductible expense shall be reduced by an amount of 20.00% of interest income subjected to final tax.

The optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. In 2022 and 2021, the Bank elected to claim itemized expense deductions instead of the OSD in the RCIT computation.

The regulations also provide for a Minimum Corporate Income Tax (MCIT) of 1.00% on modified gross income and allow a NOLCO. The MCIT is imposed on the fourth taxable year from commencement of the business operations. The MCIT may be applied against the Bank's income tax liability and taxable income over a three-year period from the year of inception.



Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service bank is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Bank amounted to P0.70 million and P1.47 million in 2022 and 2021, respectively.

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

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding P5.00 million and with total assets not exceeding P100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.
- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.

Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the Bureau of Internal Revenue (BIR), the prorated MCIT rate of the Bank for CY2020 is 1.50%. This resulted in a lower provision for current income tax of P0.89 million for the year ended December 31, 2020. The reduced amounts were reflected in the Bank's 2020 annual income tax return. However, for financial reporting purposes, the changes are recognized in the 2021 financial statements.

This also resulted to a write-down of the deferred tax assets of the Bank recognized as of December 31, 2020 by P21.43 million, of which P21.07 million was recognized as provision for deferred tax and P0.36 million in other comprehensive income in the 2021 financial statements.

Provision for (benefit from) income tax consists of:

	2022	2021
Current:		
RCIT/MCIT	P7,655,475	P2,092,556
Final	4,609,441	1,966,368
Impact of CREATE Act in CY2020	—	(892,728)
	12,264,916	3,166,196
Deferred:		
Deferred income tax	50,260,801	(35,227,808)
Impact of CREATE Act in CY2020	—	21,069,472
	50,260,801	(14,158,336)
	P62,525,717	(P10,992,140)

The components of the Bank's net deferred tax asset follow:

	2022	2021
Deferred tax assets on:		
Allowance for credit and impairment losses	P74,735,492	P113,192,440
NOLCO	—	14,346,283
Retirement liability	3,954,361	7,239,382
Accumulated depreciation on investment properties and repossessed chattels	4,507,752	4,901,201
Excess of MCIT over RCIT	—	4,770,739
Unamortized modification loss	435,862	1,664,398
Lease liability	2,376,570	2,221,905
	86,010,037	148,336,348
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment Properties	1,542,120	5,644,349
	1,542,120	5,644,349
	P84,467,917	P142,691,999

Movements in deferred tax assets comprise of:

	2022	2021
At beginning of the year	P142,691,999	P128,598,596
Amount charged against income tax payable*	(4,770,739)	—
Amounts credited to statement of income	(50,260,801)	14,158,336
Amounts charged against statements of comprehensive income (Note 19)	(3,192,543)	(64,933)
At end of the year	P84,467,916	P142,691,999

*MCIT has been used by the Bank as tax credit on its current income tax in 2022.

As of December 31, 2022 and 2021, there are no unrecognized deferred tax assets since management believes that it is probable that taxable profit will be available against which these can be utilized.

On September 30, 2020, the BIR has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 (bbbb) of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act", allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2021 and 2022 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2022, the Bank has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to Bayanihan 2, as follows:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	P79,783,402	P79,783,402	P—	P—	2025



Details of the Bank's excess MCIT over RCIT follow:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	P2,678,183	P2,678,183	—	—	2023
2021	2,092,556	2,092,556	—	—	2024

A reconciliation of statutory income tax to the effective income tax is as follows:

	2022	2021
Statutory income tax	P8,363,133	(P2,248,236)
Tax effect of:		
Impact of CREATE Act	—	20,176,744
Movements in deferred tax assets	29,309,203	(30,391,043)
Nondeductible expenses	27,207,093	1,962,820
Tax-paid and nontaxable income	(2,353,714)	(492,425)
Effective income tax	P62,525,715	(P10,992,140)

23. Contingencies

The Bank is also involved in a number of legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the Bank's defense and is based on an analysis of potential results. The Bank does not believe that these proceedings will have a material adverse effect on the financial statements. Following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2022	2021
Late deposit/payment received	P495,809	P55,000
Items held for safekeeping	14,505	15,134
Other contingent account	3,369	5,574
Total	P513,683	P75,708

Other contingent account includes post-dated checks and items held as collateral valued at P1 per item.

24. Assets and Liabilities of Disposal Group Classified as Held for Sale

In 2021, the Bank made a strategic decision to sell selected assets and liabilities to the Parent Bank as part of the overall strategies of the Bank to focus in growing DepEd Automatic Payroll Deduction System (APDS) loans. Relative to this, the Bank will transfer to the Parent Bank selected portfolios of consumption (other than APDS loans), commercial and real estate loans, and branch licenses of ten (10) regular branches and two (2) branch-lite units, including the related assets and liabilities of the branches and branch-lite units.

The Board approved such plan on October 21, 2021. The completion of this transaction will be subject to regulatory approvals. As of December 31, 2021, these assets and liabilities were classified as disposal group held for sale.

The major classes of assets and liabilities classified as disposal group held for sale to the Parent Bank as of December 31, 2021 are as follows:

Assets	
Cash and Other Cash Items	P47,233,144
Due from Bangko Sentral ng Pilipinas	359,495,106
Due from Other Banks	28,906,280
Loans and Receivables	281,388,882
Property and Equipment	40,464,314
Assets of Disposal Group Classified as Held for Sale	P757,487,726
Liabilities	
Deposit Liabilities	
Demand	P186,118,626
Savings	631,299,186
	817,417,812
Other Liabilities	20,482,390
Liabilities of Disposal Group Classified as Held for Sale	P837,900,202

On March 31, 2022, the Bank sold its consumer loans to the Parent Bank with a carrying value of 273.93 million. On April 30, 2022, the Bank sold its microfinance loans to Malayan Savings Bank with a carrying value of 72.77 million (see Note 8).

In May 2022, the Bank received the Philippine Deposit Insurance Corporation (PDIC) approval for the planned transfers of assets and liabilities.

On September 30, 2022, while waiting for the approval of the BSP for the transfer of assets and liabilities, the Board of Directors (BOD) of the Parent Bank approved the plan of merger of the Parent Bank with the Bank of Philippine Islands (BPI), with BPI as the surviving entity. The Bank is included in the deal of the plan of merger with BPI (see Note 1). On October 7, 2022, the Parent Bank deferred the application with BSP in contemplation of the merger with BPI as the Parent Bank has foremost considered its customers' convenience. If branches will be transferred to the Parent Bank and immediately thereafter will be transferred again to BPI, customer experience might significantly suffer and the Parent Bank would incur the attendant cost twice. The regulatory application will be pursued by the Parent Bank in consultation with BPI.

Hence, the expected transfer to Parent Bank will no longer materialize within the 12-month period and there is no concrete intention to continue with the transfer due to the above-mentioned reason, as also evident on the letter communication acknowledged by BSP. Effective, October 2022, the disposal group cease to be classified as assets and liabilities held for sale. These assets and liabilities were measured at carrying amount as if not previously classified as held for sale as of December 31, 2022.



25. Note to the Statement of Cash Flows

The Bank's cash and cash equivalents as of December 31, 2021 includes the following presented under 'Assets of Disposal Group Classified as Held for Sale':

Cash and Other Cash Items	P47,233,144
Due from Bangko Sentral ng Pilipinas	359,495,106
Due from Other Banks	28,906,280

Non-cash investing and financing activities that relate to the analysis of the statement of cash flows of the Bank are as follows:

	2022	2021
Increase in repossessed chattels due to foreclosure	P996,000	P3,097,165
Sale of investment properties on account	—	8,527,818
Increase in property equipment due to reclassifications from investment property	—	1,862,563
Increase in investment properties due to foreclosure	9,703,100	8,300,701
Effect of PFRS 16		
Increase (decrease) in property and equipment	14,984,454	(919,499)
Increase in lease liability	483,603	751,401
Lease concessions	—	—

26. Events after the Reporting Period

Plan of Merger with Bank of the Philippine Islands (BPI)

On January 17, 2023, at the special stockholders' meeting of the Parent Company called for the purpose, its stockholders owning more than two thirds (2/3) of all issued and outstanding shares approved the plan of merger and articles of merger with BPI.

On January 26, 2023, the Parent Company and BPI jointly filed with the BSP and SEC their request for approval of their statutory merger. To date, the statutory merger of the Parent Company and BPI is still awaiting approvals of the aforementioned government regulators.

Completion of all approvals is targeted by the last quarter of 2023 and legal merger is expected to take effect by January 1, 2024. The merger is seen as a strategic move that will unlock various synergies across businesses, expand customer bases, and enhance the overall banking experience of the Parent Company's customers with the combined network. Pending the required approvals, the Parent Company and the Bank will in the meantime continue to operate on a business-as-usual basis.

Change in business model resulting to reclassification of APDS Loans to FVOCI

In July 2022, the Bank's BOD approved the change in business model of its APDS loans receivables to FVOCI in view of the sale of APDS loans to the Parent Company to continue expand its business as part of its overall change in strategy. Under PFRS 9, the date of reclassification is first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets, effective January 1, 2023 (see Note 8).

As a result, as of January 1, 2023, the Bank reclassified APDS loans with a carrying amount of P731.71 million to FVOCI with an aggregate fair value of P707.48 million. The difference in the carrying amount and fair value at the date of the reclassification is recognized in the net unrealized

gains or losses on financial assets at FVOCI in 2023. For new releases of APDS loans receivables after reclassification date, the Bank will identify loans that will be classified as either FVOCI or HTC based on the Bank's forecast of loan growth and liquidity requirements.

27. Approval of the Release of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on May 2, 2023.

28. Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses

In 2022, taxes and licenses of the Bank consist of:

Gross receipts tax	P24,303,065
License, permits and others	2,695,986
	P26,999,051

Documentary Stamp Taxes

In 2022, the Bank has paid documentary stamps tax amounting to P 4,609,790.

Withholding Taxes

The following table shows the breakdown of taxes withheld and remitted in 2022:

	Amount	Total Remittances	Balance
Withholding taxes on compensation and benefits	P1,733,266	P1,584,886	P148,380
Withholding tax on deposits	5,696,787	4,210,374	1,486,413
Expanded withholding taxes	1,995,816	1,866,105	129,712
	P9,425,869	P7,661,365	P1,764,505

As of December 31, 2022, there are outstanding tax cases under investigation, litigation or prosecution in courts or bodies outside BIR.



29. Supplementary Information Required under Manual of Regulations

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the MORB and Manual of Regulations for Foreign Exchange Transactions (MORFXT). 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 PFRS.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

Financial performance indicators

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

	2022	2021
Return on average equity	-4.79%	0.32%
Return on average assets	-0.76%	0.07%
Net interest margin on average earnings assets	9.23%	12.47%

The following formulas were used to compute the indicators:

Performance Indicator	BSP Prescribed Formula
Return on Average Equity	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Capital Accounts}^*}$
Return on Average Assets	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Assets}^*}$
Net Interest Margin	$\frac{\text{Net Interest Income} \times 100}{\text{Average Interest Earning Assets}^*}$

*Average amount is calculated based on current year-end and previous year-end balances

Capital instruments

As of December 31, 2022 and 2021, the Bank has outstanding capital stock as shown below:

	Shares	Amount
Common stock - P100.00 par value		
Authorized	20,000,000	P2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	P1,245,960,000

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2022 and 2021:

	2022		2021	
	Amount	%	Amount	%
Secured by:				
Real estate	P22,487,905	0.69	P228,029,232	10.83
Chattel	20,821,861	0.64	97,047,682	4.61
Deposit hold-outs	589,825	0.02	1,030,618	0.05
Jewelry	1,502,067	0.05	7,858,019	0.37
	45,401,658	1.39	333,965,551	15.86
Unsecured	3,228,137,465	98.61	1,771,734,195	84.14
	P3,273,539,123	100.00	P2,105,699,746	100.00

As of December 31, 2022 and 2021, details of status of loans follow:

	Performing		Non-Performing	
	2022	2021	2022	2021
Consumption	P2,998,226,257	P1,648,912,959	P226,961,766	P212,295,158
Commercial	2,020,345	48,864,078	39,306,460	53,122,981
Real estate	2,980,490	140,119,925	4,043,805	2,384,645
	P3,003,227,092	P1,837,896,962	P270,312,031	P267,802,784

Under banking regulations, financial institutions shall adopt the ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. With the issuance of BSP Circular 941, *Amendments to the Regulations on Past Due and Non-Performing loans*, loans and lease 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/or 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:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.
2. 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 for more than 7-10 days.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. Restructured receivables as of December 31, 2022 and 2021 amounted to P36.26 million and P51.57 million, respectively.



As of December 31, 2022 and 2021, details of gross NPLs follow:

	2022	2021
Secured	P32,498,772	P45,926,465
Unsecured	237,813,259	221,876,320
	P270,312,031	P267,802,785

The NPLs of the Bank not fully covered by allowance for credit losses as reported to BSP follow:

	2022	2021
Total NPLs	P270,312,031	P267,802,785
Allowance for credit losses*	217,999,422	216,480,809
	P52,312,609	P51,321,976

*Allowance for credit losses per BSP

Significant credit exposures as to industry/economic sector

As of December 31, 2022 and 2021, information on the concentration of credit as to industry, net of unearned interest and discount, follows:

	2022		2021	
	Amount	%	Amount	%
Other services activities	P3,144,911,940	96.07	P1,610,431,244	79.44
Wholesale and retail trade, repair of motor vehicles and motorcycles	73,179,598	2.24	179,941,297	8.88
Real estate activities	7,832,061	0.24	157,953,929	7.79
Agriculture, forestry and fishing	29,151,712	0.89	34,005,924	1.68
Construction	4,729,839	0.14	14,886,018	0.73
Education	7,957,788	0.24	11,856,105	0.58
Manufacturing	871,005	0.03	5,364,976	0.26
Accommodation and food services activities	3,356,175	0.10	4,854,516	0.24
Professional, scientific and technical activities	32,251	0.00	4,607,521	0.23
Transportation and storage	1,043,565	0.03	2,213,554	0.11
Mining and quarrying	101,299	0.00	291,774	0.01
Water supply, sewerage, waste management and remediation activities	124,001	0.00	248,196	0.01
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	75,000	0.00	157,067	0.01
Human health and social work activities	32,580	0.00	91,927	0.00
Electricity, gas, steam and air, conditioning supply	34,285	0.00	87,952	0.00
Arts, entertainment and recreation	32,117	0.00	79,440	0.00
Information and communication	73,907	0.00	78,389	0.00
Administrative and support service activities	-	0.00	8,251	0.00
Financial and insurance activities	-	0.00	-	0.00
	P3,273,539,123	100.00	P2,027,158,080	100.00

The BSP considers that concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of the total loan portfolio.

Information on related party loans

In the ordinary course of business, the Bank has loan transactions with affiliates and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15.00% of total loan portfolio, whichever is lower.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of a bank's subsidiaries and affiliates shall not exceed 10.00% of bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth.

Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The following table shows information relating to DOSRI accounts of the Bank:

	2022	2021
Total outstanding DOSRI accounts	P4,275,284	P 5,041,667
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	4,275,284	5,041,667
Percent of DOSRI accounts to total loans	0.13%	0.24%
Percent of unsecured DOSRI accounts to total DOSRI accounts	73.15%	64.67%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	1.10%	0.93%
Percent of past due DOSRI accounts to total DOSRI accounts	1.10%	0.93%

As of December 31, 2022 and 2021, DOSRI loans include real estate loans to bank officers which were granted under the Bank's Financial Assistance Program, as approved by the BSP, amounting to P0.32 million and P4.35 million, respectively.

Commitments and contingent liabilities

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

	2022	2021
Late deposit/payment received	P495,809	P55,000
Items held for safekeeping	14,505	15,134
Other contingent account	3,369	5,574
Total	P513,683	P75,708

