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**R E P O R T**



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R E P O R T

# **ISLA BANK (A Thrift Bank), INC.**

## **2022 ANNUAL REPORT**

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# C O R P O R A T E   G O V E R N A N C E

## Corporate Governance Structure and Practices

Corporate governance is the foundation by which the Bank is managed and controlled. The Bank has strong corporate governance practices and is committed to uphold the best corporate governance practices that is transparent, responsible, accountable and fair and these facilitate the promotion of reform within the Bank.

The Bank's corporate governance structure, rules, policies and practices, qualifications and fundamental obligations of a director, duties and responsibilities of the Board of Directors, Board Committees and Senior Management, are embodied in our Corporate Governance Manual.

The Board of Directors ensures that senior management promotes good governance practices by ensuring that policies on governance as approved by the Board are consistently adopted across the Bank.

## *Elements of Good Corporate Governance:*

### *Transparency:*

The Board and Management adopt transparency that provides timely and reliable information and disclosure of all material matters concerning the Bank, including its financial position and results; and that any decision taken is in compliance with established policies, rules and regulations. Transparency is implemented on all levels within the Bank.

### *Responsibility:*

The Board takes responsibility for the Bank and acts to promote its best interest in behalf of the shareholders, to whom it is accountable. The Bank's Board has effectively performed its oversight functions in the implementation of risk management policies which includes the detailed structure of limits, guidelines and parameters used to govern risk-taking and clear delineation of lines of responsibilities for managing risk, effective internal controls and comprehensive risk reporting process.

### *Accountability:*

The Board is responsible for establishing strategic guidance for the Bank and is accountable to all the stakeholders. Thus, an effective oversight of management including its control and accountability systems and assessment of the Bank's performance is implemented to provide assurance on the achievement of the Bank's objectives.

### *Fairness:*

The Board and Management ensure that the principle of fairness is applied in every decision making and business transaction conducted in the regular course of business and upon terms not less favorable to the Bank than those offered to others. The Board acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders such as its employees, depositors, investors, borrowers and the public at large.

## Board Composition

Our Board consists of individuals who possess the skills, sound business experience, and expertise in their own fields or those who have financial expertise or other relevant experience which would be of value to the Bank in the performance of their duties as directors. The composition of the Board of Directors is one of the most critical components of the Bank's good governance.

The present Board which is composed of eleven Directors is commensurate to the size of the Bank and the nature and complexity of its business operations. Of the eleven, four are independent directors, while the rest are executive or non-executive directors. The executive directors are those who are officers of the Bank and are involved in the daily management of the affairs of the Bank, while non-executive directors are those who are not involved in the Bank's operations. These non-executive directors exercise independent judgement and act fairly to the best interest of the stakeholders.

The present Board has four Independent Directors (ID) in compliance with the required one-third (1/3) of the total number of directors and each has met the criteria of an independent director. The nomination and election took into consideration the rules and regulations for an independent director.

## Election of the Board

The Directors who are elected during the annual stockholders' meeting shall hold office for a term of one year. The Independent Directors may hold the position for a maximum cumulative term of nine years to reckon from 2012 pursuant to BSP Circular 969.

The current Directors have effectively performed their duties and responsibilities individually and as a body. The Board has demonstrated excellent track record of professionalism, dedication and adeptness in their role as directors. The Board has maintained a cooperative and collegial atmosphere, and with their individual expertise, has addressed the different issues at hand, diversified and built strength through shared ideas and vision.

## Selection Process for the Board and Senior Management

In nominating candidates who will serve as members of the Board of Directors of the Bank, the Corporate Governance Committee performs screening of candidates based on the criteria set by said Committee. For re-election of the present members of the Board of Directors, the overall performance of each individual director is considered. The Corporate Governance Committee considers the size, structure, complexity of operation to determine the composition of the Board of Directors and board-level committees. The installation of selection process is to ensure that a mix of competent directors, each of whom can add value and contribute independent judgement to the formulation of strategies and policies.

The Board of Directors has the power to oversee the selection process and appoint senior officers of the Bank who shall have the authority and ability to perform duties as may be prescribed by the Board. The Board shall apply “fit and proper” standards, qualifications, experience and competencies required from an individual to undertake the duties and responsibilities of the position he is appointed to. The Board regularly monitors the performance of senior management.

## Board’s Responsibility

The Board of Directors is the governing authority of the Bank and is responsible to all the stakeholders. It has the responsibility of setting the Bank’s strategic objectives and structure and risk management policies. It performs the oversight functions of the Bank’s operations and ensures that the highest standards of corporate governance are implemented.

It has the power to determine the board composition and organization. The Board performs its duties and responsibilities under the provision of relevant regulatory agency rules and regulations.



## Chairman of the Board

The Chairman of the Board shall preside at all meetings of the Board of Directors, or in his absence or inability to so preside, the meeting shall be presided over by the Vice-Chairman, or any other Director to whom this power may have been delegated by the Chairman. He provides leadership and shall ensure effective functioning of the Board of Directors, including maintaining a relationship of trust.

He shall ensure that:

- a. the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- b. there is a sound decision making process;
- c. it encourages and promotes critical discussion;
- d. dissenting views can be expressed and discussed within the decision-making process;
- e. members of the board of directors receive accurate, timely and relevant information;
- f. it conducts a proper orientation for first time directors and provides training opportunities for all directors; and
- g. it conducts a performance evaluation of the board of directors at least once a year.

## Performance Evaluation and Self-Assessment

To ensure effective governance by the Board of Directors, the Corporate Governance Committee oversees the annual self-assessment of the individual directors, the Board as a body and various Board appointed committees, including its own performance evaluation and the position of President/CEO of the Bank. The evaluation is done to determine their performance and effectiveness in accordance with their respective oversight functions and/or duties and responsibilities. The Bank has an approved evaluation standards/criterion for the Performance Evaluation/Self-Assessment of the individual Directors, the Board as a body, the various Board appointed committees and the key officers of the Bank. The evaluation for the positions of the Chief Compliance Officer (CCO) and Internal Auditor are conducted by the Audit Committee while the President evaluates the performance of the senior officers directly reporting to him. The results of the Performance Evaluation/ Self-Assessment are presented by the Corporate Governance Committee to the Board for final approval.

## Board Committees

The Board of Directors created the following committees to assist the Board in fulfilling oversight responsibilities and to ensure efficiency. The Bank has seven board committees as follows:

### Risk Management Committee (RMC)

The Risk Management Committee shall be responsible for the development and oversight of the risk management program of the Bank. It shall oversee the system of limits to discretionary authority that the Board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

### Asset and Liability Management Committee (ALCO)

The ALCO shall be responsible for setting up strategies relating to the management of risks inherent in the Bank's balance sheet, primarily the Bank's interest-earning assets (loans and investment securities) and interest-bearing liabilities (deposits and other borrowings) of the Bank. The Committee is responsible for enforcing all policies that involve market risk such as liquidity, interest rate and credit risk.

### Audit Committee

The Audit Committee provides oversight over the Bank's financial reporting policies, practices and the review of the effectiveness of the Bank's internal controls, financial, operational, compliance controls, and quality of compliance with the applicable laws and regulations.

### Executive Committee

The Executive Committee shall act on behalf of the Board of Directors in fulfilling its duties by providing management sound guidance and advices, policies and strategic guidelines on the day to day activities of the Bank. It is also responsible for the evaluation process in accordance with the policies and procedures on Related Party Transactions (RPTs) and approval of RPTs that are non-loan related and below the threshold limit.

### Information Technology (IT) Committee

The IT Committee shall review and recommend to the Board, management's strategies relating to information technology aligned to the Bank's overall strategy and objectives. It shall ensure that the Bank is taking appropriate measures to identify, assess, monitor, control and mitigate risks in the areas of information technology management.

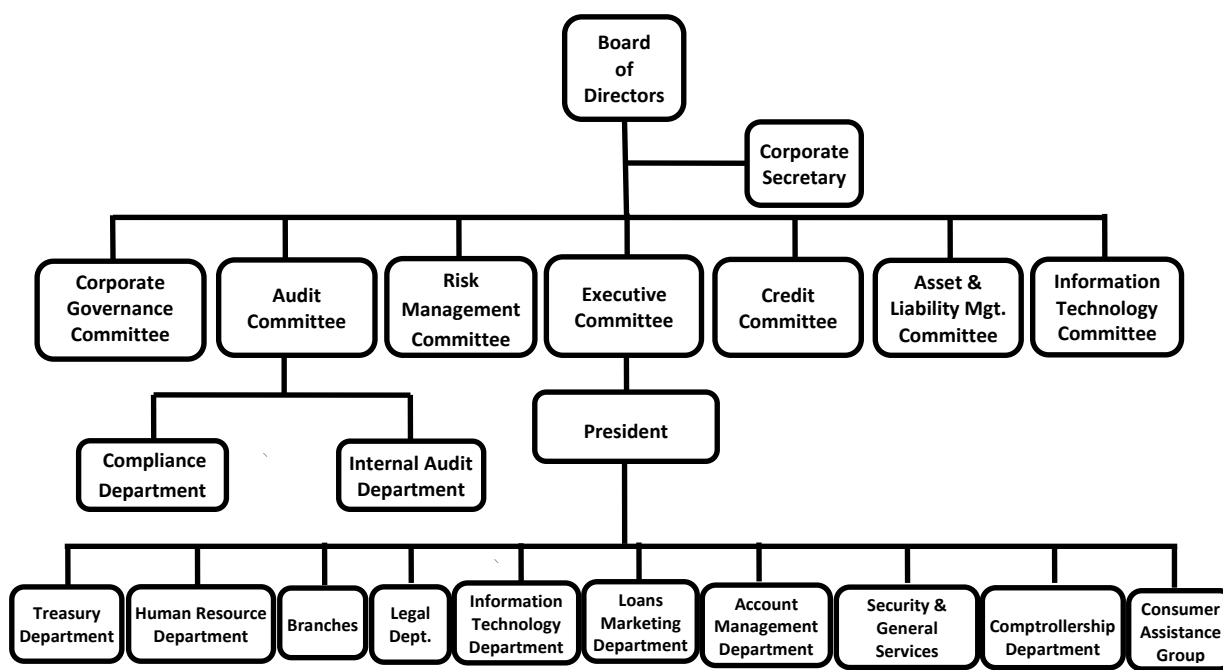
### Corporate Governance Committee

The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities, and ensures the Board's effectiveness and due observance of corporate governance principles and guidelines. It shall also evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors, as well as oversee performance evaluation of the Board, Board level Committees and Senior Management.

### Credit Committee

The Credit Committee assists the Board of Directors in fulfilling its responsibilities by providing oversight of Bank policies and management activities relating to the identification, assessment, and management of the credit risk on Bank loans. It is also responsible for the evaluation process accordance with the policies and procedures on DOSRI and Related Party Transactions (RPTs).

# ORGANIZATIONAL CHART



Eduardo V. Lim	- President and Chief Executive Officer	
Jocelyn M. Gozum	- Executive Vice President	- Treasurer
Violeta G. Angeles	- Senior Vice President	- Comptroller/CAG Head/I.T. Head
Maria Teresita R. Mendoza	- Vice President	- AMD Head/HRD Head/Corp. Sec.
Maria Theresa Maura D. Samaniego	- Vice President	- Chief Compliance Officer
Noel R. Amata	- Assistant Vice President	- Internal Auditor
Marco Antonio L. Santos	- Manager	- Loans Marketing Head
Maria Dolores M. Muyco	- Manager	- Main Office Branch Head
Jennifer Anne H. Lacson	- Manager	- Bacolod Branch Head
Tommy P. Exito	- Manager	- Iloilo Branch Head
Wilson T. Alzate	- Asst. Manager	- Security Officer/GSD Head
Atty. Arthur F. Tantuan	- Consultant	- Legal Counsel

## OUR VISION:

To be one of the leading thrift banks  
in the industry

## MISSION STATEMENTS:

To provide our clients with quality services responsive to their  
banking needs and to assure a safe and stable  
guardianship of their investments.

It has always been our mission to be one of the leading banks in the thrift banking industry, and we continue to do so. Although we may not have the size or resources of the major thrift banks, we have always been looked up to by our peers in the industry, our clients and public for our adequate capital, strong liquidity and satisfactory asset quality.

After experiencing a 9.6% contraction in 2020 due to the COVID-19 pandemic, followed by resiliency in 2021 with a 5.7% GDP expansion, the Philippine economy expanded by 7.6% in 2022 due to robust domestic demand and the further lifting of strict COVID-19 quarantine and lockdown protocols. It was one of the strongest in Asia.

Due to the highest interest rates prevailing in the market amid aggressive rate hikes delivered by the U.S. Federal Reserve and the Bangko Sentral ng Pilipinas (BSP) in 2022, our Bank shifted a substantial portion of its exposure in the Overnight Deposit Facility of the BSP (P126.6 million); matured loans (P31.2 million) and excess funds to RRP (P65.1 million) and in higher yielding long-term securities (P100.1 million), thereby improving the Bank's Net Income from Operations to P2.6 million this year in contrast to last year's P2.0 million, an increase of P 0.618 million (30.9%). The Bank reported a Comprehensive Income of only P2.7 million, a drop of P0.271 million (9.0%) from the preceding year due to a decrease in Actuarial Gain, from P1.0 million in 2021 versus P0.115 million this year

As with the preceding year, we continued to concentrate our efforts to collect our past due loan and our efforts have been fruitful as Past Due Loans as of the end of 2022 fell to P6.7 million, from P12.5 million of the previous year-end, an improvement in collection of P5.8 million (46.4%).

We continue to rely on auto loans as our main target to generate income, but again more selective and conservative in the granting of loans. Thus, for the year 2022, total loan bookings amounted to P24.8 million and we will strive to book more loans in 2023.

Despite our continued cost-cutting measures, operating expenses, increased slightly from the preceding year, due mainly to an increase in employee benefits.

In our objective to offer Advanced Electronic Payment and Financial Services (EPFS), we completed the User Acceptance Testing (UAT) for InstaPay and Bills Payment with Bancnet and Bayad Center Inc. (BCI), respectively. Both the Vulnerability Assessment and Penetration Testing (VAPT) and PESONet are ongoing. The Mobile Banking services will be operation in the early part of the second semester of 2023.

Even with the better-than-expected economic growth this year, it is believed that the economy would face more headwinds in 2023 amid an anticipated global slowdown, worsening financial conditions and the continuing war in Ukraine. As this could push the world into a global recession, your bank will continue to exercise prudence in the management of its funds.

## FINANCIAL HIGHLIGHTS

(in Philippine Pesos)

	<u>2023</u>	<u>2022</u>
<b>Profitability</b>		
Interest Income	P 80,118,057	P 61,463,426
Interest Expenses	<u>(8,243,518)</u>	<u>(5,430,862)</u>
Net Interest Income	P 71,874,539	P 56,032,564
Non- Interest Income		
Service charges, fees and commissions	P 3,028,203	P 7,258,234
Miscellaneous Income	81,286	892,287
Non-Interest Expenses	<u>P (55,669,534)</u>	<u>P (53,953,558)</u>
Pre-Tax pre-provision Profit	19,314,494	10,229,527
Allowance for Credit Losses	-	-
Taxes	<u>P (11,262,238)</u>	<u>P (7,610,077)</u>
Net Income	8,052,256	2,619,450
Other Comprehensive Income		
Remeasurements of retirement benefit plan	<u>P 624,147</u>	<u>P 115,964</u>
Total Comprehensive Income	<u><u>P 8,676,403</u></u>	<u><u>P 2,735,414</u></u>
<b>Selected Balance Sheet Data</b>		
Total Assets	1,336,292,941	1,425,423,912
Deposits	500,514,221	605,367,487
Liquid Assets	1,101,838,851	1,212,769,708
Gross Loans		
Loans and Receivables Arising from RA/CA/PR/SLB	206,803,542	208,343,199
Loans and Receivables-Others	<u>P 213,210,612</u>	<u>P 194,994,279</u>
Total Gross Loan Portfolio	<u>P 420,014,154</u>	<u>P 403,337,478</u>
Total Equity	<u>P 797,389,415</u>	<u>P 788,713,012</u>
<b>Selected Ratios</b>		
Return on Equity	1.02%	0.33%
Return on Assets	0.58%	0.18%
Capital-to Risk Assets Ratio	315.44%	327.52%

Isla Bank's Total Assets stood at P1.425 Billion as of December 31, 2022, an increase of P9 Million (0.6%) over the previous year's Total Assets of P1.416 Billion, which was attributable to increase in the level of Deposits by P3.0 Million (0.5%), from P602.2 Million in 2021 to P605.2 Million in 2022. Net Income for the year 2022 by P 2.7 Million and Other Liabilities by P3.3 Million. Our loan portfolio, however, dropped by P 28.9 Million to P191.4 Million (13.1%) from P220.3 Million.

For the year 2022, the demand for loans was still low due to the adverse impact of COVID-19 pandemic. The temporary measures Bayanihan I (Bayanihan to Heal as One Act), Bayanihan II (Bayanihan to Recover as One Act), Corporate Recovery and Tax Incentives for Enterprises (CREATE Act), Financial Institutions Strategic Transfer (FIST Act) provided by the government to stimulate economy were still not enough to bring the economy to normal. Adding to the impact of pandemic was the increase in inflation, to 6.5% in annual basis. While on the decline, the annual inflation remains at its highest since the early 1980s, a peak of 9.1% in June 2022.

Past Due Auto Loans as of December 31, 2022 fell to P6.7 Million, from P12.5 Million of the previous year 2021, an improvement of P5.8 Million (46.4%). Both Performing and Non- Performing loans decreased by P2.1 Million (89.1%) and P3.7 Million (36.2%), respectively. The Bank's outstanding Loan Loss Provisions as of month-end December was P5.2 Million and the loan loss coverage rate of Past Due Loans was 76.2%. The Bank's outstanding Allowance for Loans Losses and Other Credit Accommodations was sufficient to cover for the required credit losses based on the credit risk assessment of loan accounts, in accordance with Appendix 15 of the MORB.

Loans and Receivables Arising from Reverse Repurchase Agreement (RRP) and Overnight Deposit Facility (ODF) was P487.2 Million, lower by P65 Million for the previous year's P552.2 Million. The excess funds were partially invested in Government Bonds -P100.0 Million with a yield of 4.875% and term of 5 years. Increasing Held to Maturity Investments (HTM) as of December 31, 2022 to P670.3 Million as against the previous year's balance of P570.3 Million.

Net Income from Operations for the year 2022 was P2.6 Million compared to P2.0 Million for the year 2021. The increase in Net Interest Income of P3.2 Million was due to higher volume of earning assets and the improvement of the yields. Earning assets slightly increased by P5.0 Million (from P1.326 Billion to P1.331 Billion) resulting to an increase in Interest Income by P0.235 Million. Net Interest margin improved by 0.23% or (P3.0 Million) as RRP and ODF rates increased by a total of 3.5% (2% to 5.5% and 1.5% to 5.0%, respectively), from May to December 2022.

Non Interest Income was lower by P0.8 Million because in 2021, the Bank booked Gain on Sale/Redemption of Non-Trading Securities amounting to P0.723 Million on redemption of Ayala Land Inc. (ALI) Bond before its maturity date on January 30, 2024.

Compensation and Operating expenses posted an increase of P2.5 Million, while amortization of Dealer's Incentive and Salesman's Commission decreased by P2.7 Million, resulting to net decrease in expenses by P0.200 Million.

Lastly, 20% Final Withholding Tax increased by P2.1 Million because of the improvement on Tax Paid Income on HTM, RRP and ODF.

Net Comprehensive Income for the year was P2.7 Million, compared to P3.0 Million in 2021, while Actuarial Gain on Retirement Obligation amounted P0.116 Million, compared to P1.0 Million in 2021. Actuarial Gain or Loss was the result of the actuarial valuation conducted by Zalamea Actuarial Services, the Bank's independent Actuarial Firm.

## Business Model

The Bank will continue, as always, to maintain a low risk tolerance in achieving the Bank's strategic objectives and business plans. Consistent with our business plans, minimal credit exposure resulting from conservative stance in granting loans and exposure in low-risk, low-impact investment opportunities. Risk assessment result for the year 2022 was low, stable and well managed.

As the Bank exercise prudence in the management of Bank funds, liquidity remained strong with total liquid assets of P 1.213 Billion as of year-end 2022. An internal minimum liquidity ratio of 50 % is maintained higher than BSP's required Minimum Liquidity Ratio (MLR) of 20%. The Bank's compliance to the MLR for December 2022 was at 196.10%.

Aside from highly liquid assets of P539.2 Million consisting of Cash in Vault (CIV), Demand Deposit Account (DDA) with the BSP, deposit in other banks, Reverse Repurchase (RRP) and Overnight Deposit Faulty (ODF) with the BSP, the bulk of excess funds are invested in low-risk government securities which amounted to P670.3 Million as of December 31, 2022.

The Bank's policy is to maintain a strong capital base to keep investors, creditors and market confidence and sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank sees the need to keep a balance between the higher returns and security afforded by a sound capital position. The Bank's Capital Adequacy Ratio (CAR) of 327.52% remains more than adequate with the current and prospective risk exposures. There are no foreseen potential losses that could negatively affect the capital position of the Bank.

It is also the policy of the Bank to maintain a sound credit management to keep good quality loans. This will be accomplished by being highly selective in granting of loans and focusing on extensive collection efforts to reduce past due loans.



The Bank's sources of funds are primarily the shareholders' equity investments, retained earnings and deposits generated from customers. The Bank has no recorded short or long term borrowings and has a very strong liquid position to manage its operations in such a manner as to ensure that sufficient funds are available to meet credit demands of its clients and repay deposits on demand or upon maturity.

The Bank's investment activities are mostly low risk financial assets with 91% zero risk-weighted assets comprising of placement in BSP's ODF and RRP facilities, Philippine government securities and loans secured by hold-out on deposits. 2% portion of the Bank's assets are in Cash and Other Cash Items and deposits with BSP as part of reserve requirements. Gross Loan accounts inclusive of Reverse Repurchase Agreement (RRP) is P397.5 Million of which P6.4 Million is classified as Non Performing Loans or ratio of 1.61% to Total Loan Portfolio which is better compared to industry average of 10.2%. The Bank's outstanding Loan Loss Provision as of month-end December 2022 was P5.2 Million and the loan loss coverage rate of Non Performing Loans was 81.2% as of December 31, 2022. The Bank's outstanding Allowance for Loans Losses and Other Credit Accommodations was sufficient to cover for the required credit losses based on the credit risk assessment of loan accounts, in accordance with Appendix 15 of the MORB. Total Bank's Capital Adequacy Ratio (CAR) was 327.52%.

Gross Loans of P397.5 Million are secured by hold-out on deposits and government securities (80%), chattel (15%) and real estate mortgage (4%). The Bank continued to focus on auto financing to improve its profitability but on a highly selective approvals. The target of the Bank's for auto loans are the class A & B customers and financing of high end units. We implemented customer retention program for our existing auto loan clients with excellent payment records. The Bank has zero DOSRI loans as of December 31, 2022.

Our other major plan for 2023, is that since COVID 19 pandemic has driven consumers to rely more heavily on digital channels for their banking needs, Isla Bank shall be offering Advanced Electronic Payment and Financial Services (EPFS) and will be a participant of InstaPay Sender and PesoNet Automated Clearing House. Our digital transformation strategy should be operational in the first semester of 2023



## Message from the Chairman and the President:

After the Philippines posted a gross domestic product (GDP) growth rate of 5.7 % in 2021 following a 9.6 % contraction in 2020 as the economy stalled due to the COVID-19 lockdowns which commenced in mid-March of 2020, the country's GDP performed much better in 2022. Despite the peso's depreciation, rising interest rates and high inflation locally and the Russia-Ukraine conflict internationally, services and consumption boosted the economy last year as more businesses were allowed to fully reopen amid falling coronavirus infections. Thus, the Philippine economy grew at a faster rate of 7.6 % in 2022 -- one of the strongest in Asia -- with the further lifting of strict COVID-19 quarantine and lockdown protocols. This exceeded the government's 6.5 to 7.5 % target for the year.

Measures to reopen the economy towards greater normalcy led to increased sales, earnings, and employment, overshadowing the risks of higher interest rates at a time of aggressive rate hikes delivered by the US Federal Reserve as well as the Bangko Sentral ng Pilipinas (BSP). The US Central Bank raised the Federal Funds rate by 425 basis points in 2022 to 4.25 to 4.5 %. Consequently, the BSP also raised key policy rates by a total of 350 basis points last year, bringing the benchmark policy rate to a 14-year high of 5.5 % from an all-time low of 2 % at the start of the year. Closing at P50.999 to the US dollar in year-end 2021, the peso weakened by as much as 15.7 % to an all-time low of P59 in October, 2022 before bouncing back to P55.755 at year's end 2022. On the other hand, inflation which averaged 4.5 percent in 2021, quickened to a 14-year high of 8.1 % in December, 2022 from 8.0 % a month prior, thus bringing the full-year average to 5.8 % in 2022 --- the highest since 2008. This was faster than the 3.9 % average in 2021 and also marked the highest since 2008's 8.2 %.

As of year end 2022, Total Assets of Isla Bank stood at P1.425 Billion, a slight increase over the previous year's P1.416 Billion, as a result of an increase in deposits of P3 Million. Our loan portfolio dropped to P220.5 Million from P269.3 Million a year before, due mainly to loan payoffs, collection of monthly amortization payments on car loans and minimal new loans granted due to our conservative position. Thus, for the year 2022, total auto loan bookings amounted to P24.8 Million as against auto loan payments of P47.0 Million.

Past Due Loans as of December 31, 2022 fell to P6.7 Million, from P12.5 Million of the previous year, an improvement in collection of P5.8 Million (46.4 %). Both Performing and Non-Performing loans decreased by P2.1 Million (89.1 %) and P3.7 Million (36.2 %), respectively. The Bank's outstanding Loan Loss Provisions as of month-end December 31, was P 5.2 Million, and the loan loss coverage rate of Past Due Loans was 76.2 %. As of December 31, 2022, the Bank's outstanding Allowance for Loan Losses and Other Credit Accommodations was sufficient to cover for the required credit losses based on the credit risk assessment of loan accounts, in accordance with Appendix 15 of the MORB.

Due to the highest interest rates prevailing in the market, we shifted a substantial portion of our exposure in the overnight deposit facility of the BSP (P126.6 Million) plus our matured loans (P31.2 Million) and excess funds to RRP (P65.1 Million) and investments in long-term securities (P100.0 Million).

For 2022, your Bank recorded a total Comprehensive Income of P2.7 Million, a decrease of P0.3 Million (10.0 %) from the previous year's P3.0 Million due to a drop in Actuarial Gain on Retirement Obligation to P0.115 Million from P1.0 Million in 2021. However, the Bank improved its Net Income from Operations to P2.6 Million this year, up from P2.0 Million last year, a P0.600 Million (30.0 %) increase attributable to higher Net Interest Income due to bigger volume of earning assets and an improvement in yields. From May to December 2022, RRP and ODF rates climbed by a total of 3.5% (2% to 5.5% and 1.5% to 5.0%, respectively). While we continued our cost-cutting measures to control our operating expenses, it increased by P2.5 Million (5.0 %) from the preceding year due mainly to an increase in salaries and employee benefits.

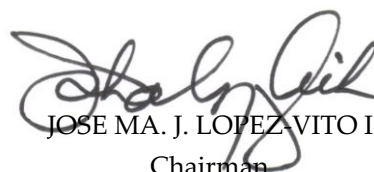
Despite the better-than-expected economic growth this year, it is believed that the economy would face more headwinds in 2023 due to the anticipated global slowdown, the worsening financial conditions and the war in Ukraine. As this could push the world into a global recession, your bank will continue to exercise prudence in the management of bank funds.

As to Isla Bank's offering of Advanced Electronic Payment and Financial Services (EPFS), we have completed the User Acceptance Testing (UAT) with Bancnet and Bayad Center Inc. (BCI) for InstaPay and Bills Payment, respectively, while Vulnerability Assessment and Penetration Testing (VAPT) and UAT for PESONet are both ongoing. The Mobile Banking services will be in operation in the early part of the second semester of 2023.

In closing, we would like to thank members of our Board of Directors for its guidance, to our stockholders, for their continuing support and trust in management, and lastly to our officers and staff for their constant hard work and loyalty to the Bank.



EDUARDO V. LIM  
President



JOSE MA. J. LOPEZ-VITO III  
Chairman

## CAPITAL ADEQUACY

The Bank's regulatory capital position as of December 31 follows:

	<u>2022</u>	<u>2021</u>
Tier 1 Capital		
Common stock	P 566,727,900	P 566,727,900
Surplus and reserves	219,365,667	217,247,981
Undivided profits for the year	<u>2,619,447</u>	<u>2,001,717</u>
	788,713,014	785,977,598
Less deduction from Tier 1 capital		
Total outstanding unsecured DOSRI loans	0	( 30,497 )
Deferred tax assets	( <u>5,123,332</u> )	( <u>5,156,657</u> )
Total Tier 1 Capital	783,589,682	780,790,444
Tier 2 Capital		
General loan loss provision	<u>900,000</u>	<u>1,050,000</u>
Total Qualifying Capital	P <u>784,489,682</u>	P <u>781,840,444</u>
Total Risk Weighted Assets		
Credit risk	P 123,728,982	P 154,240,783
Operational risk	115,794,005	128,549,842
Market risk	<u>-</u>	<u>-</u>
	P <u>239,522,988</u>	P <u>282,790,625</u>

The Bank's credit risk weighted assets as of December 31 are computed as follows:

(a) 0% Risk Weight

	<u>2022</u>	<u>2021</u>
Cash on hand	P 8,847,054	P 9,053,886
Due from BSP	302,124,571	428,801,937
Investment securities at amortized cost	670,076,457	570,360,680
Loans and receivables arising from		
RA/CA/PR/SLB	208,247,752	143,238,941
Loans to the extent covered by hold-out		
on, or assignment of, deposit substitutes		
maintained with the lending bank	<u>111,403,258</u>	<u>111,433,229</u>
	1,300,699,092	1,262,888,673
	<u>0%</u>	<u>0%</u>
	P <u>-</u>	P <u>-</u>

(b) 100% Risk Weight

	<u>2022</u>	<u>2021</u>
Other assets, gross of general loan		
loss provision	P 119,169,839	P 144,246,325
Less:		
Total outstanding unsecured credit		
accommodations, both direct and		
indirect to DOSRI, net of allowance		
for credit losses	0	( 30,497 )
Deferred tax assets	( <u>5,123,332</u> )	( <u>5,156,657</u> )
	114,046,507	139,059,171
	<u>100%</u>	<u>100%</u>
	P <u>114,046,507</u>	P <u>139,059,171</u>

(c) 150% Risk Weight

	<u>2022</u>	<u>2021</u>
Other non-performing loan except NPA to Individual for housing purposes ROPA	9,682,475	10,121,075
	-	-
	<u>150%</u>	<u>150%</u>
	<u>P 14,523,713</u>	<u>P 15,181,613</u>

There were no on-balance sheet accounts classified under 20%, 50% and 75% risk weights as of December 31, 2022 and 2021.

The Bank's operational risk weighted assets as of December 31 are computed as follows:

	<u>2022</u>	<u>2021</u>
Net Interest Income		
Interest income	P 75,877,190	P 85,248,301
Interest expense	<u>( 6,735,498 )</u>	<u>( 8,011,150 )</u>
	<u>69,141,692</u>	<u>77,237,151</u>
Other Non-interest Income		
Fees and commissions income	7,949,799	8,354,402
Other income	<u>104,513</u>	<u>108,341</u>
	<u>8,054,311</u>	<u>8,462,743</u>
Gross Income	<u>77,196,003</u>	<u>85,699,894</u>
Capital Charge (12%)	<u>9,263,520</u>	<u>10,283,987</u>
Adjusted Capital Charge (125%)	11,579,401	12,854,984
Multiplied by factor 10	<u>10</u>	<u>10</u>
Total Operational Risk-Weighted Assets	<u>P 115,794,010</u>	<u>P 128,549,840</u>

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk.

	<u>2022</u>	<u>2021</u>
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	327.52%	276.47%
Total Tier 1 capital expressed as percentage	327.15%	276.10%

As of December 31, 2022, and 2021, based on the above capital ratios, the Bank has complied with the BSP requirement on the ratio of combined capital accounts against the risk assets.

## STOCKHOLDERS

Name of Stockholders	Nationality	Number of Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the Bank	Voting Status
Jose Ma. J. Lopez-Vito III	Filipino	5,037,226	88.88262%	*
Jocelyn M. Gozum	Filipino	360,004	6.35233%	*
Eduardo V. Lim	Filipino	200,004	3.52910%	*
Others	Filipino	70,045	1.23595%	*

\* Pursuant to Article 111, Section 5 of the Bank's By-Laws, voting is by shares of stock.

## BOARD OF DIRECTORS

Name of Director		Type of Directorship	Start	End	Years served as Director	Number of Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the Bank	2021 Attendance at Board Meetings	12 Meetings in 2022
Jose Ma. J. Lopez-Vito III	Chairman	Executive	Feb'1997		25	5,037,226	88.88262%	100.000%	12
Rafael J. Lopez-Vito	Vice-Chairman	Non-Executive	Sep'1977		45	5,474	0.09659%	100.000%	12
Maria Melinda J. Lopez-Vito	Member	Non-Executive	Feb'1997		25	4	0.00007%	100.000%	8
Eduardo V. Lim	Pres/CEO	Executive	Feb'1997		25	200,004	3.52910%	100.000%	12
Jocelyn M. Gozum	EVP/Treasurer	Executive	Feb'1997 Apr'2019	Oct'2018	21 3.8	360,004	6.35233%	100.000%	12
Jose Manuel J. Lopez-Vito	Member	Non-Executive	Jul'1997		25	5,340	0.09423%	100.000%	12
Carmenia H. Sason	Member	Independent Director	Apr'2017		5.8	1	0.00002%	100.000%	12
David J. Dichupa Jr.	Member	Independent Director	Apr'2017		5.8	1	0.00002%	100.000%	11
Ma. Suzette Q. Montalvo	Member	Independent Director	Aug'2017		5.8	1	0.00002%	100.000%	12
Ma. Teresa L. Bilbao	Member	Independent Director	Nov'2018		4.2	1	0.00002%	100.000%	12
Violeta G. Angeles	Member	Executive	Apr'2009 Jun'2020	Mar'2013	4.2	40,000	0.70581%	100.000%	12

Note: There is no Nominee Director

## DIRECTORS

### Jose Ma. J. Lopez-Vito III

Mr. Lopez-Vito III, 72, Filipino, is the Chairman of the Board of the Bank. He is an AB Economics graduate of the Ateneo de Manila, Class of 1970, and started his career at the Far East Bank & Trust Co. which he joined in 1971 as Investment Researcher in the Trust & Investments Division. He steadily rose through the ranks and was appointed as its youngest Assistant Vice-President in 1976. In 1979, Mr. Lopez-Vito III joined the Bank of the Philippine Islands as Vice-President of its Trust & Investments Group, a position he occupied until September 1981. He joined the Savings Bank of Manila as its Executive Vice-President and served in this position until 1983 when he joined Fortune Cement Corporation initially as Executive Vice-President and finally its President the following year.

Together with Messrs. Enrique Zobel and Benito Araneta, Mr. Lopez-Vito III spearheaded the creation of what was to become the Araneta-Zobel Cement Group. The group purchased Fortune Cement from the Laurel-Buenaventura families in 1985 and rapidly expanded its investments into the cement industry through the purchase of Filipinas Cement Corporation 1987, Midland Cement Corporation in 1989 and the Universal Cement Corporation in 1991. By this time, the Araneta Group had become the country's most successful and second largest conglomerate in the cement industry. Mr. Lopez-Vito is also Chairman of Lovitierra Holdings Inc., LHI Real Estate Corp., Radcliffe Properties & Development Corp. Inc., Craftsperson Inc., Digital Strategist, Inc., Macstore, Inc. and Portal Trading, Inc.

### Eduardo V. Lim

Mr. Lim, 76, Filipino, is the President and Chief Executive Officer (CEO) of the Bank. He is a Liberal Arts-Commerce (LiaCom) graduate of De La Salle University. Immediately after graduation, he took and passed the Certified Public Accountancy (CPA) exams in 1968.

He started his banking career at Far East Bank and Trust Company in January, 1969 as an Investment Analyst at its Trust Division. He was promoted to officer level in August of the same year, and was transferred to its Portfolio Management Department, where he remained and eventually was promoted to Assistant Vice President (and head of Portfolio Management Department) in 1978, a position he held until his resignation in 1981. In 1978, he also took up the Management Development program (post graduate) at the Asian Institute of Management.

He moved to Security Bank and Trust Company in July, 1981 as Vice President and head of the bank's Trust and Investment Division. In October, 1983, he joined the Trust Group of Bank of the Philippine Islands and remained there until his retirement in 1995. During his stint at BPI, he became President of the Trust Officers Association of the Philippines.

Nevertheless, his banking career continued in March, 1996 with a short stint at Asia Trust and Development Bank as head of its Trust Division. In late December of the same year, he was invited to join Isla Bank as Director and President/Chief Operating Officer (COO). He presently holds a position as President/Chief Executive Officer (CEO).

He is also presently director and treasurer of Realty Investment, Inc., a real estate firm.

### **Rafael J. Lopez-Vito**

Mr. Rafael J. Lopez-Vito, 78, Filipino, is the Bank's Vice-Chairman since 1997. He is a graduate of Ateneo de Manila in 1968 with a degree of Bachelor of Laws. He passed the Licensure Bar Examination for Lawyers in 1969. He was a Senior Partner at the Lopez-Vito Valencia and Arungayan Law Office from 1969 to 2017. He worked at Philbanking Corporation as Branch Manager of Iloilo Branch from 1974 to 1977. He was the moving force in the establishment of Iloilo Savings and Loan Association in 1977 and served as Supervising Director until 1995. Iloilo Savings and Loan Association was eventually converted to a savings bank, Isla Bank, Inc., where he served as director and Vice Chairman, which he holds until the present. He was elected Congressman of the Lone District of Iloilo City in 1987 and served in this capacity for two consecutive terms. He is also a stockholder and director of Remyco Realty, Inc. and Heirs of Jose Ma. Lopez-Vito Agricultural Corp.

### **Maria Melinda I. Lopez-Vito**

Ms. Maria Melinda I. Lopez-Vito, 70, Filipino, is a graduate of the Assumption College with a degree of Bachelor of Science in Management. She joined Prudential Bank as Executive Secretary from 1974 to 1975. From 1975 to 1977, she worked as Marketing Assistant for American European Asian Development Corp. She has been a director since 1997 and Corporate Secretary until 2018.

She is also stockholder and director of Lovitierra Holdings Inc., B & C Design, LHI Real Estate Corporation and Portal Trading, Inc.

### **Jose Manuel J. Lopez-Vito**

Mr. Jose Manuel J. Lopez-Vito, 84, Filipino, has a degree in Bachelor of Science in Chemistry having graduated from the University of San Agustin, Iloilo City and a degree in Bachelor of Science and Criminology from University of Negros Occidental-Recoletos, class of 1983. He also has a masteral degree in National Security Administration from the National Defense College of the Philippines. He was Dean of the Criminology Department of the University of Negros Occidental-Recoletos from 1985 to 1998. He also manages his farms, Hacienda Leonor, Hacienda Soledad and Hacienda Tres Hermanos, located at Negros Occidental. He is a director of the Bank since 1997.

### **Violeta G. Angeles**

Violeta G. Angeles, 68, Filipino, is a Banker by profession. In college, she took up Bachelor of Science in Commerce majoring in Accounting at the Far Eastern University graduating in 1975. Her career in Banking saw its beginning when, fresh from college, she joined Pilipinas Bank in 1976 as Budget Analyst. She moved to Savings Bank of Manila in 1981 as Manager of Comptrollership Group. When UCPB acquired Savings Bank of Manila in 1984, she was promoted to Assistant Comptroller with the rank of Assistant Vice President (under the new name of the bank, UCPB Savings Bank) a position she held until she became the Vice President/Comptroller in 1990. In March, 1997 she was invited by the Chairman, Jose Ma. J. Lopez-Vito III, to join Isla Bank to become its Senior Vice President and Comptroller, the position she currently holds.

### **Jocelyn M. Gozum**

Ms. Gozum, 62, Filipino, is a graduate of St. Paul's College of Manila, Class of 1981 with the degree of BS Commerce major in Accounting. She passed the Licensure Board Examination for Accountants in 1982. She started her career in banking when she joined Savings Bank of Manila in February 1982 as an Accounting Bookkeeper and rose to the ranks as Assistant Manager of UCPB Savings Bank in 1986. In 1987, she left UCPB Savings Bank to join the Araneta-Zobel Cement Group as the General Manager of Formark, Inc., the marketing arm of FR Cement Corporation. In 1991, with the aggressive move of the Araneta Group to expand its investment in the cement industry not only in Metro Manila but also in Cebu, she simultaneously held the position of Finance Officer for Lloyd's Richfield Industrial Corporation (Cebu-based) and SVP-Marketing for FR Cement Corporation. In February 1997, Ms. Gozum again moved back to banking and joined ISLA Bank as Executive Vice-President and Treasurer.

### **Ma. Suzette Q. Montalvo**

Ms. Ma. Suzette Q. Montalvo, 63, Filipino, joined the Bank as an Independent Director in 2017. She earned her Bachelor of Science major in Management degree from the University of St. La Salle, Bacolod City in 1980 and took graduate studies in Administration in the same university after graduation. She worked as Accounting Clerk at the Countryside Credit Corporation, Bacolod City in 1980, as New Accounts Clerk at the Union Bank of the Philippines, Bacolod Branch in 1981, then as Senior Teller from 1983 to 1988. She acted as OIC/Finance Officer of Prawntech, Inc. in General Santos City from 1989 to 1990. She was Manager/Partner of Chryslène Boutique also in General Santos City from 1990 to 1992. She joined Isla Bank as Senior Teller/Cashier when the Bacolod Branch opened in 1997, and became the Assistant Manager-Branch Operations Officer in 1999 to 2003. She acted as Assistant Manager-Marketing Officer/Cashier from 2003 to 2008 and as Branch Manager from 2008 till she left in 2012. She was Manager/Consultant at the London Beach Resort & Hotel, Inc. from 2013 to 2014, then as Finance Manager in 2015.

Presently, she owns and manages TM Lucky Ventures which operates food kiosks under trade name Buko Splash offering fresh coconut juice and coconut shakes, with three (3) outlets in different malls in General Santos City.



### **David J. Dichupa, Jr.**

Mr. David J. Dichupa, Jr., 74, Filipino, joined the Bank as an Independent Director in 2017. He is a BS Chemical Engineering graduate of University of San Agustin in Iloilo City. Right after graduation Mr. Dichupa worked for Worldwide Paper Mills. In 1999, he was tasked to put up the company's subsidiary Dasmarinas Paper Mills Inc. where he assumed the position as Executive Vice President until his resignation in 2004. Currently, he is actively involved in their family business Tordich Corporation which operates a food kiosk in Bonifacio Global City.

He also became one of the Managers of the De La Salle University men's basketball and volleyball teams as well as its ladies volleyball team.

In 2016, he was appointed the Technical Consultant of Filoil Energy Company, Inc., a leading independent player in the Philippine oil industry.

### **Carmenia H. Sason**

Ms. Carmenia H. Sason, 46, Filipino, joined the Bank as an Independent Director in 2017. She earned her Bachelor's degree in Commerce major in Marketing from the University of St. La Salle, Bacolod City in 1996. After graduation, she joined Metropolitan Bank and Trust Company where she stayed for 19 years (1996 to 2015). She rose from the rank, initially as New Accounts Clerk (1996 to 2000), then as Teller (2001 to 2005). She was promoted as Branch Operations Officer in 2006 and to Senior Assistant Manager in 2015.

### **Ma. Teresa L. Bilbao**

Ms. Ma. Teresa L. Bilbao, 82, Filipino, Independent Director, joined the Bank in November, 2018. She is a graduate of Maryknoll College, now known as Miriam College, with a Bachelor of Arts degree, major in History and minor in Philosophy. Currently, she is an independent director of Iloilo Doctors' College and Chairperson of the Committee on Social and Spiritual Affairs. She was previously elected as Mayor of Hinoba-an, Negros Occidental and served for two terms from 2007 to 2013. Presently, she serves as Punong Barangay of Barangay Pook, Hinoba-an and manages Hacienda Paz, a sugar farm, and Sunshine Resort, a beach resort, both located in Hinoba-an.

## BOARD COMMITTEES:

### The Risk Management Committee

Members	4 Meetings held during the year 2022		
		Attendance	%
Carmenia H. Sason, Independent Director	Chairman	4	100.00%
Ma. Teresa L. Bilbao, Independent Director	Member	4	100.00%
Ma. Suzette Q. Montalvo, Independent Director	Member	4	100.00%

### The Asset and Liability Committee

Members	12 Meetings held during the year 2022		
		Attendance	%
Eduardo V. Lim, President/CEO	Chairman	12	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	12	100.00%
Violeta G. Angeles, SVP/Comptroller	Member	12	100.00%
Maria Teresita R. Mendoza, Vice President	Member	12	100.00%

### The Audit Committee

Members	12 Meetings held during the year 2022		
		Attendance	%
David J. Dichupa Jr., Independent Director	Chairman	13	100.00%
Rafael J. Lopez-Vito, Vice Chairman of the Board	Member	13	100.00%
Ma. Suzette Q. Montalvo, Independent Director	Member	13	100.00%

### The Executive Committee

Members	4 Meetings held during the year 2022		
		Attendance	%
Eduardo V. Lim, President/CEO	Chairman	4	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	4	100.00%
Violeta G. Angeles, SVP/Comptroller	Member	4	100.00%

### The Information Technology Committee

Members	4 Meetings held during the year 2022		
		Attendance	%
Violeta G. Angeles, SVP/Comptroller	Chairperson	4	100.00%
Jose Manuel J. Lopez-Vito, Non-Executive Director	Member	4	100.00%
Maria Teresita R. Mendoza, Vice President	Member	4	100.00%
Eric P. Pascua, IT Security and Data Privacy Officer	Member	4	100.00%

### The Corporate Governance Committee

Members	4 Meetings held during the year 2022		
		Attendance	%
Jose Ma. J. Lopez-Vito III, Chairman of the Board	Member	4	100.00%
Carmenia H. Sason, Independent Director	Member	4	100.00%
David J. Dichupa Jr., Independent Director	Chairman	4	100.00%

### The Credit Committee

Members	12 Meetings held during the year 2022		
		Attendance	%
Eduardo V. Lim, President/CEO	Member	12	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	12	100.00%
Maria Teresita R. Mendoza, Vice President	Member	12	100.00%

## M A N A G E M E N T

## D I R E C T O R Y

EDUARDO V. LIM	President / Chief Executive Officer
JOCELYN M. GOZUM	Executive Vice President / Treasurer
VIOLETA G. ANGELES	Senior Vice President / Comptroller
MARIA THERESA MAURA D. SAMANIEGO	Vice President / Chief Compliance Officer
MARIA TERESITA R. MENDOZA	Vice President / Corporate Secretary
NOEL R. AMATA	Assistant Vice President / Internal Auditor

### **Eduardo V. Lim**

Mr. Lim, 76, Filipino, is the President and Chief Executive Officer (CEO) of the Bank. He is a Liberal Arts-Commerce (LiaCom) graduate of De La Salle University. Immediately after graduation, he took and passed the Certified Public Accountancy (CPA) exams in 1968.

He started his banking career at Far East Bank and Trust Company in January, 1969 as an Investment Analyst at its Trust Division. He was promoted to officer level in August of the same year, and was transferred to its Portfolio Management Department, where he remained and eventually was promoted to Assistant Vice President (and head of Portfolio Management Department) in 1978, a position he held until his resignation in 1981. In 1978, he also took up the Management Development program (post graduate) at the Asian Institute of Management.

He then moved to Security Bank and Trust Company in July, 1981 as Vice President and head of the bank's Trust and Investment Division. In October, 1983, he joined the Trust Group of Bank of the Philippine Islands and remained there until his retirement in 1995. During his stint at the Bank, he became President of the Trust Officers Association of the Philippines.

Nevertheless, his banking career continued in March, 1996 with a short stint at Asia Trust and Development Bank as head of its Trust Division. In late December of the same year, he was invited to join Isla Bank as Director and President/Chief Operating Officer (COO). He presently holds a position as President/Chief Executive Officer (CEO).

He is also presently director and treasurer of Realty Investment, Inc., a real estate firm.

### **Jocelyn M. Gozum**

Ms. Gozum, 62, Filipino, is the Executive Vice President and Treasurer of the Bank. She is a graduate of St. Paul's College of Manila, Class of 1981 with the degree of BS Commerce major in Accounting. She passed the Licensure Board Examination for Accountants in 1982. Ms. Gozum started her career in banking when she joined Savings Bank of Manila in February 1982 as an Accounting Bookkeeper and rose to the ranks as Assistant Manager of UCPB Savings Bank in 1986. In 1987 she left UCPB Savings Bank to join the Araneta-Zobel Cement Group as the General Manager of Formark, Inc., the marketing arm of FR Cement Corporation. In 1991 with the aggressive move of the Araneta Group to expand its investment in the cement industry not only in Metro Manila but also in Cebu, she simultaneously held the position of Finance Officer for Lloyd's Richfield Industrial Corporation (Cebu-based) and SVP-Marketing for FR Cement Corporation. In February 1997 Ms. Gozum again moved back to banking and joined ISLA Bank as Executive Vice-President and Treasurer.

### **Violeta G. Angeles**

Violeta G. Angeles, 68, Filipino, is a Banker by profession. In college, she took up Bachelor of Science in Commerce majoring in Accounting at the Far Eastern University graduating in 1975. Her career in Banking saw its beginning when, fresh from college, she joined Pilipinas Bank in 1976 as Budget Analyst. She moved to Savings Bank of Manila in 1981 as Manager of Comptrollership Group. When UCPB acquired Savings Bank of Manila in 1984, she was promoted to Assistant Comptroller with the rank of Assistant Vice President (under the new name of the bank, UCPB Savings Bank) a position she held until she became the Vice President/Comptroller in 1990. In March, 1997 she was invited by the Chairman, Jose Ma. J. Lopez-Vito III, to join Isla Bank to become its Senior Vice President and Comptroller, the position she currently holds.

### **Maria Theresa Maura D. Samaniego**

Maria Theresa Maura D. Samaniego, 57, Filipino, is a Cum Laude graduate of the University of the East, with a Bachelor of Science in Accountancy degree and a Certified Public Accountant. She started out as Audit Clerk at Prudential Bank and rose from the ranks to become an Audit Officer in 2001, a position she held up to March 2006 when the bank was absorbed by the Bank of the Philippine Islands. In June, 2006, she resigned to take care of her sick child. After her child's recovery, she joined Isla Bank as Internal Auditor from June 2012 to August 15, 2022. She was promoted to Chief Compliance Officer (CCO) effective August 16, 2022.

### **Maria Teresita R. Mendoza**

Maria Teresita R. Mendoza, 67, Filipino, is currently Vice President and Head of Accounts Management Division and Human Resource Department. She was Assistant Corporate Secretary in October 1998 and Corporate Secretary starting May 2018. She graduated from the College of the Holy Spirit in 1978 with a Bachelor of Science in Commerce major in Economics, and earned Master of Business Administration units from the La Salle Business School. Right after graduation she joined the then Far East Bank as Credit Analyst. In 1988 she was the Compliance Officer of UCPB Savings Bank and then as Credit Review Officer in 1994 and moved to UCPB as Manager in 1995. In March 1997, she joined Isla Bank as Head of the Loans Department and became the Head of the Human Resource Department in July 1998.

### **Noel R. Amata**

Noel R. Amata, 60, Filipino is a Certified Public Account (CPA) and the current Internal Auditor of the Bank. He graduated from the Lyceum of the Philippines - Manila, (now called Lyceum of the Philippines University) with a degree in Bachelor of Science in Business Administration, major in Accounting. He also took up and earned units in Masters in Business Administration at the De La Salle University in 1986. He started his career in banking as a Settling Clerk in Buendia Branch of Prudential Bank in October 1984, just a week after taking the CPA Board Exam. Being a Certified Public Accountant, he was eventually transferred to the Auditing Department of the bank in 1987, where he started as an Audit Clerk, and slowly inched his way to the position of Audit Officer. After more than thirteen (13) years with Prudential Bank, he moved to Malayan Bank as Chief Auditor.

He was later on appointed as Compliance Officer few months after the issuance of BSP Circular No. 145 in October 1997, requiring banks to develop and implement a compliance system, and appoint/designate a Compliance Officer to oversee its implementation. He held both the position of Chief Auditor and Compliance Officer of Malayan Bank for almost even (7) years before he transferred to Centennial Savings Bank as an Assistant Vice President, Internal Audit and Compliance Group Head. After Centennial Savings Bank, he had a brief stint in United Overseas Bank Philippines as Head of Internal Audit, Compliance, and Risk Management Department in 2007 to 2008, before joining Toyota Financial Services Philippines Corporation (TFSPH) as Compliance Officer, Assistant Vice President in September 2008. It was during this time that the Bangko Sentral ng Pilipinas (BSP) no longer allows the Head of Internal Audit Department to be also designated as Compliance Officer. He set-up the Compliance Department of TFSPH, that had just been granted a quasi-bank license by BSP. He held the position up to his retirement upon reaching the company's retirement age of 55, and after 33 years in the banking industry primarily with Internal Audit and Compliance. In August 2022, he went back to the banking industry and joined Isla Bank. He is at present the Internal Auditor, and an Assistant Vice President of the bank.

# OPERATIONAL POLICIES

## Orientation and Education Program

As mandated by existing regulations, the Bank ensures that new directors undergo the requisite corporate governance seminar conducted by BSP accredited institutions and on boarding seminars. New directors are furnished with copies of the general/specific duties and responsibilities of the Board and as an individual director upon election. The continuing Business Education is being provided internally for the Board of Directors and the various units of the Bank, in particular updates on Anti Money Laundering (AML).

## Retirement and Succession Policy

The Bank has adopted the minimum requirements for retirement under Republic Act 7641. Except for the Executive Directors, all other Directors are not entitled to retirement pay. The Independent Directors have a cumulative term limit of nine (9) years.

The Senior Officers' position in the Bank is vital in the organization's success and ensuring that the functions are understood and shared by supervisors and among other senior officers. Standing Appointees have been identified as successors to key positions. Senior management provides the ExeCom with an annual performance report regarding its skills, key officers and other high potential individuals to ensure that there is a sufficient pool of qualified internal candidates to fill senior and leadership positions and to identify opportunities.

The Bank's retirement policy is adopted from Article 287 of the Labor Code: the employee may retire upon reaching the age of sixty and he has served for at least five years, he is entitled to retirement pay equivalent to one-half month salary for every year of service.

## Remuneration Policy and Structure

The CEO & Executive Directors receive remuneration as Officers of the Bank, consisting of basic monthly pay and bonuses. For the Directors, the Bank's By-Laws provides that "Each director shall receive a fee or per diem in such amount as the Board of Directors may determine for attendance at any meeting of the Board, for each day of session."

The Board is responsible in approving the remuneration package of Senior Management. Executive Directors do not participate in determining their remuneration package.

Amongst others, the following are some of the criteria adopted by the Bank in considering the remuneration of the Senior Management:

- The overall performance of the Company tracked against the annual plan and the general economic situation;
- Prevailing market practice and salary position against market;
- Skills, experience and individual performance.

## Policy of Related Party Transactions (RPT)

The Bank transacts with related parties which consist of its stockholders, directors, officers and employees and their related interests. Related party transactions are not limited to lending and may include, among others, such as investment, borrowings, guarantees, lease agreements, purchases and sales of assets and contracts.

The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties which are normal banking activities are handled in a sound and prudent manner. These are conducted on arm's length basis and is compliant with existing laws, rules and regulations at all times.

The Board approves all material RPTs, those that cross the materiality threshold of more than Five Hundred Thousand and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders during the annual stockholders meeting. Any renewal or material changes in the terms and conditions of the RPTs are also approved by the Board of Directors.

The designated Executive Committee has the responsibility for the RPTs that are below the materiality threshold, subject to the confirmation by the Board of Directors. These shall, however, exclude DOSRI transactions, which have to be approved by the Board.

Loans and advances granted to related parties as disclosed in the Audited Financial Statements, as Note 23 (f), on RPTs.

In the ordinary course of business, the Bank has loan transactions with certain DOSRI.

Under existing policies of the Bank, these loans are made substantially on the same terms as with other individuals and businesses of comparable risks.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15 percent of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70 percent must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. Unsecured DOSRI loans to the officers of the Bank are subject to 5 percent ceiling for loans under fringe benefits program under MORB. As of December 31, 2022, and 2021, the Bank has satisfactorily complied with these limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI in accordance with BSP reporting guidelines:

	<u>2022</u>	<u>2021</u>
	<u>DOSRI Loans</u>	
Total outstanding loans	0	P 30,497
% of loans to total loan portfolio	0.0%	0.01%
% of unsecured loans to total DOSRI/related party loans	0.0%	0.05%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%

	<u>2022</u>	<u>2021</u>
	<u>Related Party Loans (inclusive of DOSRI)</u>	
Total outstanding loans	P 58,450,227	P 58,450,227
% of loans to total loan portfolio	30.46%	26.46%
% of unsecured loans to total DOSRI/related party loans	0.0%	0.05%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%

Loans to DOSRI, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11). As of December 31, 2022, and 2021, the Bank does not have any past due or non-performing DOSRI loans.



### Other Related Party Transactions

Related party transactions on loans with original principal amount of P58,500,000, has an outstanding balance of P58,396,177 and P58,393,847 as of December 31, 2022 and 2021, respectively, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11), will mature within one to two years, and earn 10% to 12% interest both in 2022 and 2021. These loans are fully secured with deposits in both years.

On July 1, 2007, the Bank entered into a five-year contract of lease with LHI Real Estate Corporation, a related entity under common ownership, and renewed on July 1, 2012 for another five years. On June 30, 2017, the same contract was renewed until June 30, 2022. In 2022, the same contract was renewed for another five years. In 2022, the Bank received written notice from the lessor waiving the rent until further notice.

### Dividend Policy

Article XI, Section 1 of the By-Laws of the Bank, provides that dividends may be declared annually or as often as the Board of Directors may determine. The Board may declare dividends only from the surplus profits of the Bank after making proper provisions for the necessary reserves in accordance with rules and regulations of the Manual of Regulations for Banks.

For stock dividends, Article XI, Section 2 of the By-Laws, states that with the approval of the Stockholders representing two-thirds (2/3) of all the stock then outstanding and entitled to vote, given at a general meeting or at a special meeting duly called for the purpose, the Board may declare that dividends be paid in stock.

In accordance with X124 of the Manual of Regulations for Banks, the net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar/fiscal year-end immediately preceding the date of dividend declaration.

The derivation of the amount of dividends from the unrestricted/free retained earnings shall be based on a sound accounting system and loss provisioning processes under existing regulations which takes into account relevant capital adjustments including losses, bad debts and unearned profits or income.

## Financial Consumer Protection Framework

The Bank has a Board approved Consumer Protection Framework that will help protect the interest of the financial consumers, address their concerns and take the corrective actions in a timely manner and institutionalize the responsibilities to all stakeholders.

The Board of Directors is responsible for developing consumer protection strategy. The Board approves and oversees the overall compliance with the consumer assistance protection policies and procedures to ensure that the Bank conforms with consumer protection laws, regulations, guidelines and other best practices/standards.

Senior Management is responsible for implementing the program to manage the customer compliance risks associated with the Bank's business and ensuring compliance with laws and regulations on a day-to-day basis.

The Bank's framework implements at all times the following protection standards for consumer risks:

### a. Disclosure and Transparency

The Bank makes available to the client a written copy of the Terms and Conditions of the products and services. The employee assigned properly and carefully explains the terms and conditions of the products and services which the client is availing as well as the fundamental benefits and risks involved before consummating the transaction.

### b. Protection of Client Information

The Bank ensures the Confidentiality and Security of Client Information by establishing policies on information and security to safeguard the customer personal data. The sharing of customer information is not allowed unless with the written consent of the client. On September 12, 2018, the Bank registered with the National Privacy Commission, an independent body created under Republic Act No. 10173 or the Data Privacy Act of 2012, mandated to administer and implement the provisions of the Act, and to monitor and ensure compliance of country with international standards set for data protection.

### c. Fair Treatment

The Bank ensures that clients are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. Safeguarding the best interest of the customer is always considered.

#### d. Financial Education and Awareness

The Bank recognizes the need for continuing training of personnel concerned on the matters of consumer protection laws, rules and regulations, related Bank's policies and procedures and products and services in order to maintain a sound consumer protection compliance program. The channel on how the clients can send their complaints/requests are communicated to the clients.

The Bank has a Code of Conduct applicable to all staff, spelling out the Bank's values and standards of professional conduct that uphold protection of clients. Bank employees demonstrate a culture of fair and responsible treatment of clients.

#### e. Consumer Assistance Process and Timeline

The Bank has defined the consumer assistance process and timeline in processing and addressing the client's complaints/requests and assigned designated personnel to handle the client concern.

The Bank monitors and analyzes the nature of all customer complaints and addresses these issues within the minimum timeframe set by the Bank. The Bank has an established guideline on the required monthly submission of report on customer complaint to the Board thru a Board committee and Senior Management including the frequency and information to be reported. Information Technology and Risk Management Committees discuss in their regular meetings, the category of complaints received, statistic, aging of complaints and resolutions/actions taken to resolve the complaints/requests. Immediate reporting is required on any significant/material complaint. The discussion includes the recommendation/s on how to

avoid recurring complaints and suggestions for improvement, as needed.

The table below shows the summary of the number of complaints received by the Bank. As of the year end 2020, there were no outstanding unresolved complaints/issues.

	<u>2022</u>	<u>2021</u>
Total no. of complaints	16	10
-No cash dispensed (ATM)	14	5
-Captured card	1	2
-Unposted	1	0
Transactions (nearest peso)	102,300	24,400

#### Corporate Social Responsibility

The Bank advocates community involvement and supports small businesses by availing the services and purchasing supplies including the donated sacks of rice from sellers in the locality. With the decreasing trend of new Covid-19 cases and accompanying easing of restrictions, we were able to visit two organizations in Iloilo and donate sacks of rice. Asilo de Molo is run by the Daughters of Charity established in the 1930s as an orphanage and is now the home for indigent elderly of Iloilo. The other organization visited was the orphanage Villa Santa Vicenta Maria Religious of Mary Immaculate in Jaro, Iloilo.

We integrate throughout the organization fair labor practices, respect for stakeholders including co-workers and clients, and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues.

## Sustainable Finance

The Bank has Board approved Environmental and Social Risk Management Framework in accordance with BSP Circular 1085 issued on April 29, 2020. Effectivity of this Circular is not later than April 2023, three (3) years from the issuance to fully comply with the provisions. The Bank's strategies and policies on sustainability principles are integrated into the Bank's corporate governance and risk management frameworks as well as in our strategic objectives and operations.

Sustainable Finance refers to any form of financial products and service integrating environmental, social and governance (ESG) criteria into the business or investment decisions for the lasting benefit of both clients and society while reducing pressures on the environment. This also covers green finance, which is designed to facilitate the flow of funds towards environmentally-friendly economic activities as well as climate change mitigation and adaptation projects.

The Bank's present loan portfolio and Investment in Debt Securities, do not have accounts that can be classified as High and Medium risk in terms of Environmental Threat that can affect social, human and community. We have not identified any major challenge upon implementation considering the Bank's low risk appetite in terms of financing and investment.

The Bank has set Environmental and Social Risk Limits or Threshold per category (Low, Medium and High) for Loans and Investment in Debt Instruments which was considered in the business plan for the year 2023 to 2024. Our risk appetite for environmental and social risk exposure is low.

# INTERNAL CONTROL AND RISK MANAGEMENT

## Internal Audit

Internal Audit involves an independent and objective conduct and evaluation of the Bank's activities, such as but not limited to (1) adequacy of the Bank's internal control system, (2) quality management assurance, (3) business activities, (4) operational performance based on risk-oriented principles, (5) compliance with legal and regulatory requirements, and (6) implementation of established policies and procedures. As an independent unit, internal audit executes its functions fairly and impartially, ensuring that no conflict of interest arises within the Bank. Other responsibilities of Internal Audit include: (1) developing an annual audit plan through a risk-based approach, (2) ensuring that the methodology of the audit plan provides ongoing risk and control assessments to strengthen fraud detection, (3) providing recommendations in the implementation of corrective measures to enhance effective controls and processes, and (4) providing reasonable assurance on the effectiveness of risk management of government processes. The internal audit activities conform to the generally accepted accounting and auditing standards, the Bank's operating procedures and processes, as well as the relevant rules and regulations of regulatory agencies. It communicates to Senior Management and Board of Directors of their internal control responsibilities, and extends support in the efficient and execution of their responsibilities.

The Bank's Internal Audit is headed by an Internal Auditor, who is a Certified Public Accountant with more than five (5) years' experience in bank's Audit. He possesses the qualifications required per BSP regulation, such as but not limited to unassailable integrity, relevant education and training, and understanding of the risk exposures of the Bank. The Internal Auditor is responsible for overseeing the aforementioned functions, works closely with Compliance Department and external auditor, and has free and unrestricted access to all records, information, and properties of the Bank. He reports to the Board of Directors through the Audit Committee composed of three (3) members of the Board of Directors, with two (2) of whom are Independent Directors, including the Chairman. The Audit Committee performs an annual review of the internal audit performance through self-assessment to ensure the adequacy, competency and the effectiveness of the Bank's existing internal control system.

## Compliance

The Bank's Compliance Office plays a crucial role in ensuring an independent function that identifies, assesses, monitors and reports on the Bank's compliance risk that seeks to protect the Bank's reputation and the interest of the stakeholders, thus ensuring that the compliance system is robust and effective. The Chief Compliance Officer (CCO) directly reports to the Board of Directors through the Audit Committee. She manages the Compliance Department where she assures that its directive, activities and primary result areas are performed and delivered as she conducts an offsite and onsite compliance testing to various units/departments and branches of the Bank to monitor and assess the Bank's adherence to existing policies, laws and regulations to function effectively and efficiently. She reports any material compliance issues and concerns noted during the examination for further evaluation, investigation and resolution as properly disclosed in the Compliance Testing Reports.

The Compliance Officer ensures that all officers and staff are aware and conform with the latest regulatory agencies, circulars, memorandum and advisories for proper and consistent application of the laws, rules and regulations. Likewise, they are also being provided with an in-house seminars and webinars for the latest updates or amendments related to banking regulatory matters and practices.

## Anti-Money Laundering

The Bank strictly adheres with the established guidelines of the Money Laundering Terrorist Financing Prevention Program and Targeted Financial Sanctions. The Compliance Officer conducts regular review of the Bank's effectiveness and efficiency of the existing processes, adequacy of precautionary measures and controls to manage and mitigate the risks against financial crimes. Regular risk assessment is being performed with proper Know Your Customer (KYC) and Customer Due Diligence (CDD) procedures by applying a risk-based approach in customer account opening processes; continuous ongoing monitoring of the clients' transactions/ activities to determine both reportable covered and suspicious activities; and updating the customers' profile and customer account information/records which are all essential elements for an adequate and efficient AML/CFT framework.

## Risk Management

### Risk Management Principles

A robust risk management is significant to the Bank's daily activities and it is the core of the operating structure where it manages the risk exposures within agreed levels of risk appetite. The Bank's risk management is proportionate to the nature, volume and simple operations, as well as its risk profile.

The Bank is committed to build and enhance the risk management capabilities that assist in delivering the growth plans in the financial institution. The Board of Directors and Senior Management play an active role in ensuring that risks are well managed and has existing appropriate approaches, systems, and controls that are in place to mitigate risk.

Effective and efficient risk management process is incorporated in all its business activities. This assures that the Bank has adopted policies and procedures for the identification, measurement, assessment, monitoring, controlling and mitigating of risks and reporting such risk; adequate organizational structure; sufficient process of management of all risks that the Bank is or may be exposed to in its operation; and adequate internal control system.

### Risk Management Strategy

The Bank's risk management strategy encompasses minimizing or reducing risks exposure, limiting potential losses and ensuring continues adequacy of financial resources. The Bank continued its commitment to sound risk management that proved effective as shown in our capital and liquidity position. Moreover, strong corporate governance that focuses specifically on risk management helps the Bank reach its ultimate goals.

### Risk Management Governance

The risk management governance applies the principles of sound governance in the identification, measurement, monitoring, and controlling of risks. It ensures that risk-taking activities are in line with Bank's strategy and risk appetite and covers all material risk categories applicable to the Bank.

To manage the Bank's risk effectively, the Board of Directors through the Risk Management Committee (RMC) adopts and promotes the Bank's risk culture and monitors adherence to the defined risk appetite. The RMC performs the oversight functions in the development of risk management strategies for risk identification and evaluation, risk monitoring, managing and controls. The Committee meets at least quarterly or more frequently as necessary.

To ensure objectivity, the Bank's RMC is made up of individuals who are independent of the Bank's business organization. RMC is composed solely of three directors of the Bank who are all independent directors and therefore not involved in the Bank's day-to-day operations.



### Risk Management Scope and Structure

Risk culture pertains to the Bank's risk approach and is critical to sound risk management governance.

The Board promotes risk awareness within a sound risk culture. The Board does not support excessive risk taking and conveys to all units that the Bank operates within the established risk appetite and limits. The RMC ensures that material risk and risk-taking activities exceeding the risk appetite and limits are reported and addressed in a timely manner.

### Risk Appetite

Risk appetite is the level of risk the Bank is willing to assume taking into account its overall risk bearing capacity, the extent of risk exposures, as well as the governance, monitoring and reporting of these risks. It draws the line between those risks which are acceptable and those considered unacceptable. It also forms the basis for establishing limits, controls and mitigation measures. Risk appetite and business strategy are aligned to risk bearing capacity and its established limits.

The RMC, in consultation with the Board, established the Bank's risk appetite, risk allocation and limits. The risk appetite is communicated throughout the Bank. The Board evaluates and supports the risk appetite at least annually. The RMC monitors the strategic, capital and operating plans within the risk appetite and established limits.

Stress Testing exercises are implemented to effectively manage exposures on specific risk areas of the Bank and to promote strong risk governance. Stress testing exercises are also linked to the risk appetite, business strategies as well as capital and liquidity plans of the Bank. The test will enable the Bank to quantify the impact of changes in risk factors on the assets and liabilities of the Bank.



## RISK EXPOSURE AND ASSESSMENT

Risk Description	Risk Appetite	Mitigating Factors	Risk Exposure
<b>Liquidity Risk</b>  Is the risk to earnings or capital arising from a Bank's inability to meet its obligations when they come due without incurring unacceptable losses.	Low	<ul style="list-style-type: none"> <li>The Bank has a liquidity risk management framework which identify, analyze, monitor, control and manage the liquidity position of the Bank at all times</li> <li>The Bank's policy is to manage its operations in such a manner as to ensure that sufficient funds are available to meet credit demands of its clients and repay deposits on demand or upon maturity</li> <li>The Bank maintains sufficient liquid assets at all times to meet immediate funding requirements.</li> <li>To identify liquidity risk, a Liquidity Gap Analysis monitors the gap between assets and liabilities in terms of maturities and measures the direction and extent of asset-liability mismatch through either funding or maturity. Liquidity ratios are computed to determine compliance with internal liquidity limit and ratio while liquidity stress test measures Bank's capacity to handle stressful events affecting liquidity such as sizable and unexpected cash outflows.</li> <li>A Contingency Funding Plan is in place detailing sources of funds according to availability and situations where it should be utilized with coordinated plan of action by the departments involved should such liquidity crisis occur.</li> <li>A Minimum Liquidity Ratio (MLR) report was adopted per BSP Circular No. 996. The MLR promotes short-term resilience to liquidity shocks by measuring liquid assets in proportion to balance sheet liabilities.</li> </ul>	<b>Low</b>  Liquidity remains strong in view of Management's strategy to maintain substantial liquidity.  Funds sources are from capital (55.3%) and special and regular deposits (42.5%) of total resources.  The Bank has a very strong liquidity as it has substantial liquid funds to service cash outflows from customers and borrowers.  Bulk of liquid funds are maintained in deposits with the BSP and investments in government securities.  The Bank's risk exposure to Liquidity Risk is Low.

		<ul style="list-style-type: none"> <li>• A prudential MLR of 20% of the Bank's eligible stock of liquid assets to its total qualifying liabilities is to be complied on an ongoing basis even in the absence of liquidity risk. In comparison, Isla Bank maintains a 50% internal limit which is above the required MLR.</li> <li>• The liquidity risk methodologies are submitted to the Board through the Senior Management, ALCO, and the Risk Management Committee and are reviewed and updated.</li> <li>• Conduct Scheduled Stress Tests.</li> </ul>	
<p><b>Credit Risk</b></p> <p>Is the possibility of financial loss if a counterparty to a transaction defaults or fail to meet contractual obligations to the Bank.</p>	Low	<ul style="list-style-type: none"> <li>• The Bank manages its credit risk and loan portfolio through the Credit Committee, which undertakes several functions with respect to credit risk management.</li> <li>• The Bank structures the levels of credit risk it undertakes by setting limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and to geographical and industry segments. Such risks are monitored on an evolving basis and subject to annual or more frequent review.</li> <li>• The Bank is operating under a sound credit granting process in accordance with credit scoring model.</li> <li>• The approval processes are in accordance with the approving authority and corresponding approval limits.</li> <li>• Monitoring of credit limits, large exposures and credit risk concentrations.</li> <li>• Implementation of credit risk management information and reporting systems.</li> <li>• The Bank has an established policy on Related Party Transactions (RPTs) and observes compliance to</li> </ul>	<p><b>Low</b></p> <p>The Bank's credit risk exposure is low. The Bank asset quality is satisfactory. Asset profile consistently registered a high-quality portfolio with 91.0% zero risk - weighted assets comprising of placement in BSP's deposit and RRP facilities, Philippine government securities and loans secured by hold-out.</p> <p>Non-performing loans was P6.4 Million or 1.61% of the total loan portfolio. Loan loss coverage was 81.2% which was sufficient to cover for general and specific loan loss reserve in accordance with appendix 15 of the MORB.</p> <p>Gross Loans of P397.5 Million are secured by hold-out on deposits and government securities (80.0%), chattel (15.0%)</p>

		the guidelines. to ensure that transactions are to the best interest of the Bank and consistent with the policy of transparency, fairness and integrity.	and real estate mortgage (4.0%).
<b>Market and Interest Rate Risk</b>  Is the risk to earnings or capital arising from changes in the value of loan and investment portfolio which arises from market-making, dealing and position-taking in interest rate, foreign exchange, equity and commodities market.	<i>Low</i>	<ul style="list-style-type: none"> <li>The Bank's exposure is limited to interest rate risk from its lending and deposit taking activities, placements with the BSP and local banks and investments in held-to-maturity prime corporate bonds and government securities.</li> <li>Lending rates are fixed vis-a-vis prevailing market rates and are computed to provide a comfortable net interest margin and reasonable return of investment. Updates on the market risks are communicated to the Board thru the Senior Management, ALCO and the RMC.</li> <li>An Interest Rate and Maturity Gap Analysis Measures Bank's exposure to interest rate fluctuations which can pose a significant threat to Bank's earnings and capital base. A single 100 basis points (+/- 100 bps) maximum threshold on earnings at risk (EaR) is adopted as Isla Bank has traditional and simple business and balance sheet.</li> <li>These methodologies are submitted to the Board through the Senior Management, ALCO, and the Risk Management Committee (RMC) for their guidance and action, and are reviewed and updated, when necessary, while the RMC updates the Board of various risk management activities.</li> </ul>	<b>Low</b>  The Bank does not engage in market-making, dealing and position-taking in the domestic financial market. The Bank's investment portfolio is made up of 100% government securities which are held-to-maturity. The portfolio therefore, is not exposed to adverse movements of interest rates in the financial market.
<b>Information Technology Risk</b>  Is the risk of any potential Information Technology (IT)	<i>Low</i>	<ul style="list-style-type: none"> <li>The information security is managed by the Information Security Officer (ISO) who is responsible for the oversight of the Bank's Information Security Risks with regards to confidentiality, integrity and availability of the IT infrastructure, processing systems in line with the</li> </ul>	<b>Low</b>  There were no reported compromised ISLA ATM cards, security breaches, fraud, theft or vandalism.

<p>failures to disrupt the Bank's business such as hardware and software failure, human error, viruses, malicious attacks as well as natural disasters.</p>		<p>Information Technology compliance monitoring processes to meet IT policies and applicable regulatory requirements.</p> <ul style="list-style-type: none"> <li>• The Bank has an approved Information Technology Risk System which provide guidelines in managing risks associated with use of technology commensurate to the size, nature of e-banking products and services and degree of adoption of technology by the Bank.</li> <li>• Report on the IT risks are submitted to the Board thru the IT Committee on a regular basis with such recommendations as the Committee may deem appropriate, thus the Board is informed of the Committee's activities. Also, all security issues relevant to the Bank's technology activities and any other important IT matters are also being reported.</li> <li>• The Bank conducts a business resumption testing at least once a year to ensure that the Bank's operations can withstand the effects of major disruptions of critical operations due to internal and external threats, which may be natural, man-made or technical in origin.</li> <li>• IT risk exposure is commensurate to the classification of the Bank as "Simple" in terms of degree of complexity of the Bank's systems and IT profile. IT risk management system, governance, structure, security controls and processes in place are commensurate to the classification.</li> </ul>	<p>ATM complaints were minimal and resolved within 1 to 3 banking days. Business continuity and disaster recovery plan is tested annually. For security risk management, an adequate security program is in place. The inspection of security devices is being conducted regularly. Likewise, in coordination with the Bureau of Fire Protection, fire and earthquake drills are conducted yearly. The results of the annual performance evaluation of all the service providers of the Bank were Very Satisfactory.</p>
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<p><b>Reputational Risk</b></p> <p>Is the risk that could arise from failure to mitigate the risks in its business. This is the risk of collective negative public perceptions and opinions, past and present, about an organization.</p>	<p><i>Low</i></p>	<ul style="list-style-type: none"> <li>• The Bank demonstrates a high standard in setting clear business policies and practices with integrity and trust.</li> <li>• Create a happy and productive workplace for better working environment that renders productivity and credibility to employees.</li> <li>• Ensure to maintain proper safeguarding of employees' and customers' data, sensitive private/personal information and financial data in observance of data privacy act and protection policies and practices.</li> <li>• Establish good customer and bank relationship by providing efficient quality services for high level of satisfaction.</li> </ul>	<p><b>Low</b></p> <p>The Bank has no history of negative publicity, fraud incidence and adverse information.</p>
<p><b>Strategic Risk</b></p> <p>Is the risk that may arise from the adverse business decisions or the improper implementation of the decisions of the Board of Directors relative to the objective of the bank.</p>	<p><i>Low</i></p>	<ul style="list-style-type: none"> <li>• The Board and Senior Management are knowledgeable, experienced, independent, with clear understanding of the market, economic, and competitive conditions. There are board members who are independent, who check and balance the activities of management to meet the targeted goal.</li> <li>• Management remains to be conservative in terms of lending, as part of the strategy.</li> <li>• The Bank continues to offer consumer financing particularly auto loans with high yielding receivables.</li> <li>• Ensure to continue to be very prudent in granting loans to applicants.</li> </ul>	<p><b>Low</b></p> <p>The Bank is operating based on the adopted business plan and objective.</p>

<p><b>Compliance Risk</b></p> <p>Is the risk to earnings or capital arising from violations of laws, rules and regulations, prescribed practices or ethical standards. The risk of legal or regulatory sanctions, financial loss, and loss of reputation that Bank may suffer as a result of its failure to comply with applicable laws, regulations, Codes of Conduct and standards of good practice.</p>	<p><i>Low</i></p>	<ul style="list-style-type: none"> <li>• The Compliance Unit is responsible in guiding every business unit on the proper implementation of laws, rules and regulations, and directives.</li> <li>• Conduct a risk assessment based on the customers, products and services, and transactions, to monitor and evaluate any threats.</li> <li>• Provide seminars to the Board, officers and employees to keep them abreast of the latest updates, developments and new issuances on compliance measures, policies, and procedures to better understand the risks and its consequences</li> </ul>	<p><i>Low</i></p> <p>The Bank's compliance risk management is satisfactory. The Bank has no major violation for non-compliance with the applicable laws, regulations, Codes of Conduct and standards of good practice.</p>
<p><b>Legal Risk</b></p> <p>Is the risk to earnings or capital that may arise because of unenforceable contracts, lawsuits or adverse judgements.</p>	<p><i>Low</i></p>	<ul style="list-style-type: none"> <li>• Services of an external legal counsel are engaged on a retainer basis to review documents and contracts, among others, and to ensure that these are complete and enforceable.</li> <li>• Monitoring of legal matters is conducted through regular discussion with the legal counsel. There is no pending or impending litigation by or against the Bank or any of its directors and officers which could adversely affect financial condition.</li> <li>• Performance of the legal counsel is monitored and annually reviewed by the Corporate Governance Committee.</li> </ul>	<p><i>Low</i></p> <p>There are no pending cases files by or against the Bank or any of its directors and officers which could adversely affect the Bank's financial condition as well as its reputation.</p>

## Report of Independent Auditors

### The Board of Directors

#### Isla Bank (A Thrift Bank), Inc.

Ground and Second Floors, Glass Tower 115 Carlos Palanca Jr. Street  
Legaspi Village, Makati City

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Isla Bank (A Thrift Bank), Inc. (the Bank), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the years then ended, and the 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 (PFRS).

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements

as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



**ISLA BANK (A THRIFT BANK), INC.**

disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

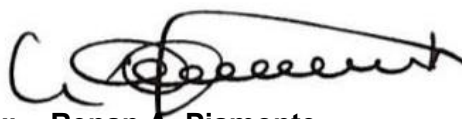
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information to the financial statements for the years ended December 31, 2022 and 2021 required by the Bangko Sentral ng Pilipinas, and for the year ended December 31, 2022 required by the Bureau of Internal Revenue, as disclosed in Notes 23 and 24, respectively, is presented for purposes of additional analysis and is not required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **PUNONGBAYAN & ARAULLO**

  
By: **Renan A. Piamonte**  
Partner

CPA Reg. No. 0107805  
TIN 221-843-037  
PTR No. 8852342, January 3, 2022, Makati City  
SEC Group A Accreditation  
Partner - No. 107805-SEC (until Dec. 31, 2023)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2023

**ISLA BANK (A THRIFT BANK), INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
<b><u>RESOURCES</u></b>			
CASH AND OTHER CASH ITEMS	8	P 8,847,054	P 9,053,886
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	302,124,571	428,801,937
DUE FROM OTHER BANKS	8	19,851,240	22,230,644
LOANS AND RECEIVABLES ARISING FROM REPURCHASE AGREEMENT	8, 9	208,343,199	143,246,899
INVESTMENT SECURITIES AT AMORTIZED COST	10	673,603,644	573,535,784
LOANS AND RECEIVABLES – Net	11	189,192,891	220,486,304
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net	12	4,804,018	4,066,908
RIGHT-OF-USE ASSETS – Net	13	3,186,772	926,854
OTHER RESOURCES – Net	14	<u>15,470,523</u>	<u>13,856,856</u>
<b>TOTAL RESOURCES</b>		<b><u>P 1,425,423,912</u></b>	<b><u>P 1,416,206,072</u></b>
<b><u>LIABILITIES AND CAPITAL FUNDS</u></b>			
DEPOSIT LIABILITIES	15	P 605,367,487	P 602,339,626
OTHER LIABILITIES	16	<u>31,343,413</u>	<u>27,888,848</u>
Total Liabilities		<u>636,710,900</u>	<u>630,228,474</u>
<b>CAPITAL FUNDS</b>			
Common stock	17	566,727,900	566,727,900
Surplus		211,196,978	208,577,528
Remeasurements of retirement benefit plan		<u>10,788,134</u>	<u>10,672,170</u>
Total Capital Funds		<u>788,713,012</u>	<u>785,977,598</u>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<b><u>P 1,425,423,912</u></b>	<b><u>P 1,416,206,072</u></b>

See Notes to Financial Statements.

**ISLA BANK (A THRIFT BANK), INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
<b>INTEREST INCOME</b>			
Loans and receivables	11	P 24,589,047	P 28,722,044
Investments at amortized cost	10	24,065,554	17,487,927
Due from Bangko Sentral ng Pilipinas and other banks	8	7,074,809	6,462,348
Loans and receivables arising from repurchase agreement	9	<u>5,734,016</u>	<u>3,022,265</u>
		<u>61,463,426</u>	<u>55,694,584</u>
<b>INTEREST EXPENSE</b>			
Deposit liabilities	15	4,171,055	4,316,200
Others	13, 20	<u>1,259,807</u>	<u>911,968</u>
		<u>5,430,862</u>	<u>5,228,168</u>
<b>NET INTEREST INCOME</b>		<u>56,032,564</u>	<u>50,466,416</u>
<b>OTHER INCOME</b>			
Service charges		7,258,234	8,165,562
Others	12	<u>892,287</u>	<u>829,436</u>
		<u>8,150,521</u>	<u>8,994,998</u>
<b>OTHER OPERATING EXPENSES</b>			
Employee benefits	19, 20	24,589,327	23,485,699
Taxes and licenses		6,119,175	6,186,852
Security, messengerial and janitorial services		4,427,747	4,005,041
Information technology		4,066,037	4,057,712
Depreciation and amortization	12, 13	2,660,789	2,329,511
Insurance		2,469,978	2,441,447
Power, light and water		1,364,796	1,194,251
Membership and dues		1,253,707	1,277,417
Management fees		1,101,000	1,009,800
Occupancy	13	1,029,574	1,008,912
Others	18	<u>4,871,428</u>	<u>4,927,853</u>
		<u>53,953,558</u>	<u>51,924,495</u>
<b>PROFIT BEFORE TAX</b>		10,229,527	7,536,919
<b>TAX EXPENSE</b>	21	<u>7,610,077</u>	<u>5,535,202</u>
<b>NET PROFIT</b>		2,619,450	2,001,717
<b>OTHER COMPREHENSIVE INCOME</b>			
Remeasurements of retirement benefit plan	20	<u>115,964</u>	<u>1,005,102</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 2,735,414</u>	<u>P 3,006,819</u>

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.  
STATEMENTS OF CHANGES IN CAPITAL FUNDS FOR THE  
YEARS ENDED DECEMBER 31, 2022 AND 2021

*(Amounts in Philippine Pesos, Except Number of Shares)*

	Common Stock		Remeasurements of Retirement		
	(Note 17)		Benefit Plan		Total
	<u>No. of Shares</u>	<u>Amount</u>	<u>(Note 20)</u>	<u>Surplus</u>	<u>Capital Funds</u>
Balance at January 1, 2022	5,667,279	P 566,727,900	P 10,672,170	P 208,577,528	P 785,977,598
Total comprehensive income for the year	-	-	115,964	2,619,450	2,735,414
Balance at December 31, 2022	<u>5,667,279</u>	<u>P 566,727,900</u>	<u>P 10,788,134</u>	<u>P 211,196,978</u>	<u>P 788,713,012</u>
		<u>0</u>			
Balance at January 1, 2021	5,667,279	P 566,727,900	P 9,667,068	P 206,575,811	P 782,970,779
Total comprehensive income for the year	-	-	1,005,102	2,001,717	3,006,819
Balance at December 31, 2021	<u>5,667,279</u>	<u>P 566,727,900</u>	<u>P 10,672,170</u>	<u>P 208,577,528</u>	<u>P 785,977,598</u>

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.  
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts in Philippine Pesos)

	Notes	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax	P	10,229,527	P 7,536,919
Adjustments for:			
Interest received		39,343,934	38,206,657
Interest income on loans and receivables	11	( 24,589,047 )	( 28,722,044 )
Interest income on investment securities at amortized cost	10	( 24,065,554 )	( 17,487,927 )
Interest income on due from Bangko Sentral ng Pilipinas (BSP) and other banks	8	( 7,074,809 )	( 6,462,348 )
Interest income on loans and receivables from repurchase agreement	9	( 5,734,016 )	( 3,022,265 )
Interest paid		( 4,472,255 )	( 9,637,069 )
Interest expense on deposit liabilities	15	4,171,055	4,316,200
Depreciation and amortization	12, 13	2,660,789	2,329,511
Gain on sale of equipment	12	( 709,466 )	-
Amortization of computer software	14, 18	674,793	996,652
Interest expense on lease liabilities	13	301,160	138,046
Operating loss before changes in operating resources and liabilities		( 9,263,889 )	( 11,807,668 )
Decrease in loans and receivables		29,347,345	48,859,777
Increase in other resources		( 665,728 )	( 328,959 )
Increase in deposit liabilities		3,027,900	41,815,161
Increase (decrease) in other liabilities		52,109	( 1,256,654 )
Cash generated from operations		22,497,737	77,281,657
Cash paid for income taxes		( 7,374,876 )	( 5,394,508 )
Net Cash From Operating Activities		15,122,861	71,887,149
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of investment securities at amortized cost	10	( 100,000,000 )	( 250,000,000 )
Interest received from investment securities at amortized cost	10	23,997,694	19,095,703
Acquisitions of bank premises, furniture, fixtures and equipment	12	( 2,342,822 )	( 1,501,881 )
Acquisitions of intangible assets	14	( 1,656,050 )	-
Proceeds from sale of equipment	12	711,015	-
Proceeds from maturities of investment securities at amortized cost	10	-	122,300,000
Net Cash Used in Investing Activities		( 79,290,163 )	( 110,106,178 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		( 64,167,302 )	( 38,219,029 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items	8	9,053,886	10,098,635
Due from BSP	8	428,801,937	458,456,863
Due from other banks	8	22,230,644	18,927,807
Loans and receivables arising from repurchase agreement	8, 9	143,246,899	154,069,090
		603,333,366	641,552,395
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
Cash and other cash items	8	8,847,054	9,053,886
Due from BSP	8	302,124,571	428,801,937
Due from other banks	8	19,851,240	22,230,644
Loans and receivables arising from repurchase agreement	8, 9	208,343,199	143,246,899
		P 539,166,064	P 603,333,366

See Notes to Financial Statements.

**ISLA BANK (A THRIFT BANK), INC. NOTES TO  
FINANCIAL STATEMENTS DECEMBER 31,  
2022 AND 2021**

**I. (Amounts in Philippine Pesos)**

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

Isla Bank (A Thrift Bank), Inc. (the Bank) is a savings and mortgage bank in the Philippines and was established on August 10, 1977. The Bank is engaged in the accumulation of savings from depositors and investing the fund, together with the Bank's capital, in readily marketable government debt securities, in loans and receivables under repurchase agreement, mortgages on real estate and insured improvements thereon, and other forms of security or in loans of personal or household finance, whether secured or unsecured, and financing for home building and home development.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of Republic Act (R.A.) No. 8791, *General Banking Law of 2000*, and other related banking laws.

The Bank's registered office, which is also its principal place of business, is located at Ground and Second Floors, Glass Tower, 115 Carlos Palanca Jr. Street, Legaspi Village, Makati City. At the end of 2022 and 2021, the Bank has two branches strategically located in key cities outside Metro Manila.

***1.2 Continuing Impact of Covid-19 Pandemic on the Bank's Business***

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved because of reopening of local and international travels and loosening of health and safety protocols and restrictions. Demand and supply of products are slowly returning to pre-pandemic levels. As a result, overall continuing impact of the COVID-19 pandemic to the Bank is continuously improving, and Bank's operations is slowly going back to its pre-pandemic levels.

Management will continue to take the following actions to continually improve the operations:

- Perform comprehensive review of loan accounts to assess vulnerable sectors, and continuously assess the adequacy of allowance for impairment on loans and other receivables;
- Ensure continued access to credit facilities for clients with resilient and sustainable businesses amid the pandemic. The Bank to proactively work with clients for the restructuring of loan terms to address temporary tightness/liquidity problems; and,
- In 2022 and 2021, the Bank was able to focus on the collection of receivables as they fall due as compared to 2020 when the Bank is required to comply with *Bayanihan I* and *Bayanihan II* by granting loan moratoria to qualified customers under the said Laws. There were no similar issuances in both 2022 and 2021.

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

### ***1.3 Approval of Financial Statements***

The financial statements of the Bank as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the Bank's Board of Directors (BOD) on February 22, 2023.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### ***2.1 Basis of Preparation of Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

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

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

## 2.2 *Adoption of Amended PFRS*

(a) *Effective in 2022 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Liabilities
PFRS 16 (Amendments)	:	Leases – Lease Incentives



Discussed below and in the succeeding page are the relevant information about these amendments.

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*. The amendments prohibit 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 cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.
- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Bank's financial statements:
  - PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The amendments clarify 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.
  - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) *Effective in 2022 that is not Relevant to the Bank*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Bank's financial statements:

- (i) PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework* (effective from January 1, 2022)
- (ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Bank:
  - a. PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
  - b. PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

### 2.3 *Current versus Non-current Classification*

The Bank presents assets and liabilities in the statement of financial position based on liquidity, while current or non-current classification is presented in Note 4. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Bank classifies all other liabilities as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

## 2.4 *Financial Instruments*

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

### (a) *Financial Assets*

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions.

Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

### (i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding page.

#### *Financial Assets at Amortized Cost*

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

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

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

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(a)].

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. The Bank's financial assets at amortized cost are presented in the statements of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables Arising from Repurchase Agreement, Loans and Receivables, Refundable Deposits (presented as part of Other Resources in the statements of financial position) and Investment Securities at Amortized Cost.

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

(ii) *Effective Interest Rate Method and Interest Income*

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

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

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets. The interest earned is recognized in the profit or loss section in the statement of comprehensive income.

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

(iii) *Impairment of Financial Assets*

The Bank assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost.

Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event.

Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

Measurement of ECL

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

- *Probability of default (PD)* – This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.

- *Loss given default (LGD)* – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Bank shall include the potential availing (up to the current contractual limit) at the time of default should it occur.

The Bank applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance on its loans and receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Bank uses its historical experience to calculate the ECL using a provision matrix. The Bank also assesses impairment of loans and receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due.

For financial assets carried at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Bank measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period.

(iv) *Reclassification of Financial Assets*

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

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(v) *Derecognition of Financial Assets*

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) *Modification of Loans*

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

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

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

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



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

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

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) *Derecognition of Financial Assets Other than Through Modification*

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

(b) *Financial Liabilities*

Financial liabilities, which include deposit liabilities and other liabilities (except for retirement benefit obligation and taxes payable), are recognized by the Bank when it becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on these financial liabilities are recognized as expense in profit or loss.

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



Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

**2.5 Bank Premises, Furniture, Fixtures and Equipment**

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the furniture, fixtures and equipment of five years. Leasehold improvements are amortized over the terms of the related leases or five years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## **2.6 Computer Software**

Acquired computer software licenses (presented under Other Resources) are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of this intangible asset is considered finite. In addition, computer software licenses are subject to impairment testing as described in Note 2.13.

Computer software licenses are capitalized based on the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When the computer software license is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

## **2.7 Prepaid Expenses and Other Assets**

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

## **2.8 Provisions and Contingencies**

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

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

## **2.9 Capital Funds**

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

Surplus represents all current and prior period results of operations as reported in the statement of comprehensive income, net of dividend declaration to stockholders, if any.

Remeasurements of retirement benefit plan arise from the changes in financial and demographic assumptions and experience adjustments in measuring the present value of the defined benefit obligation.

## **2.10 Related Party Transactions and Relationships**

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

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

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

## **2.11 Other Income and Expense Recognition**

Other Income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to a customer.

Expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred.

In addition, the specific recognition criteria presented below and in the succeeding page must also be met before other income or expense is recognized.

- (a) *Direct acquisition cost* pertains to commissions paid to dealers in relation to the Bank's auto loans and is recorded as part of the carrying amount of the loans in the statement of financial position, which is considered in applying the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- (b) *Service charges* are generally recognized when the service has been provided.

## 2.12 Leases – Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

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

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases (less than 12 months) and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, Right-of-use Assets are presented separately while, Lease liabilities are presented as part of Other Liabilities.

### **2.13 Impairment of Non-financial Assets**

Bank premises, furniture, fixtures and equipment, right-of-use assets, and computer software (presented under Other Resources in the statement of financial position) and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed, except goodwill and branch license, if the cash generating units' recoverable amount exceeds its carrying amount.

#### **2.14 Employee Benefits**

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

##### **(a) Post-employment Defined Benefit Plans**

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory, and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

*(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

*(c) Compensated Absences*

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

## **2.15 Income Taxes**

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

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



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

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

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

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

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

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

## ***2.16 Events After the End of the Reporting Period***

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



### 3. **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

#### 3.1 *Critical Management Judgments in Applying Accounting Policies*

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

(a) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

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

The Bank developed business models which reflect how it manages its portfolio of financial instruments. These business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies.

Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument. If more than an infrequent sale is made from a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, it 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 investment objective for the business model.

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

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

The factors that are normally the most relevant are: (i) if there are significant penalties should the Bank pre-terminate the contract, and (ii) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.8, and relevant disclosures are presented in Note 22.

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2.2.

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.4). The Bank's ECL calculations are outputs of models with a number of underlying assumptions which include: (1) the Bank's criteria for assessing if there has been a significant increase in credit risk; and, (2) development of expected credit loss models, including the choice of inputs relating to macroeconomic variables. The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information. The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.2.2.

The carrying value of loans and receivables and allowance for impairment on such financial assets are shown in Note 11, while the information about debt securities classified as investments securities at amortized cost is disclosed in Note 10.

(b) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets and Computer Software*

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

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

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets and computer software are presented in Notes 12, 13 and 14, respectively. Based on management's assessment as of December 31, 2022 and 2021, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as at December 31, 2022 and 2021 is disclosed in Note 21.

(e) *Impairment of Non-financial Assets*

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management assessment, no impairment losses were required to be recognized on non-financial assets in 2022 and 2021.

(f) *Valuation of Post-employment Benefits*

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 20.2.

## **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Bank, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio.

Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

### **4.1 Risk Management**

To manage the financial risk for holding financial assets and financial liabilities, the Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statement of financial position to optimize the risk-reward balance and maximize return on the Bank's capital. The Bank's Risk Management Committee (RMC) has the overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed.

Within the Bank's overall risk management system, RMC is responsible for managing the Bank's statement of financial position, including the Bank's liquidity and interest rate related risks. In addition, RMC formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted statement of financial position results.

## **4.2 Credit Risk**

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default.

This is inherent in the Bank's lending and investing activities and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring. The Bank manages its credit risk and loan portfolio through the Credit Committee (CC), which undertakes several functions with respect to credit risk management.

The CC undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The CC performs risk ratings for corporate accounts and risk scoring for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The CC is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The CC also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector are approved by the RMC.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Furthermore, the registration of chattel held as collateral is under the name of the Bank and it will only be transferred upon full payment.

The CC reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

#### 4.2.1 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk (gross of allowance for impairment) as of December 31, 2022 and 2021 are shown below.

	Cash, Due from BSP and Other Banks*	Loans and Other Receivables	Investment Securities at Amortized Cost	Other Resources	Total
<b>2022:</b>					
Financial intermediaries	P 28,698,294	P -	P -	P -	P 28,698,294
Government agencies	510,467,770	-	673,603,644	-	1,184,071,414
vehicles and motorcycles	-	458,673	-	-	458,673
service activities	-	701,889	-	-	701,889
Construction	-	1,807,882	-	-	1,807,882
Whole and retail trade, repair of motor vehicles and motorcycles	-	43,736,170	-	-	43,736,170
Accommodation and food service activities	-	51,124,856	-	-	51,124,856
Professional, scientific and technical activities	-	13,813,489	-	-	13,813,489
Agriculture, forestry and fishing	-	457,152	-	-	457,152
Real estate activities	-	356,988	-	-	356,988
Manufacturing	-	82,059,333	-	6,297,255	88,356,588
Other service activities	-	-	-	-	-
	<b><u>P 539,166,064</u></b>	<b><u>P 194,516,432</u></b>	<b><u>P 673,603,644</u></b>	<b><u>P 6,297,255</u></b>	<b><u>P 1,413,583,395</u></b>
<b>2021:</b>					
Financial intermediaries	P 31,284,530	P 160,115	P -	P -	P 31,444,645
Government agencies	572,048,836	-	573,535,784	-	1,145,584,620
Whole and retail trade, repair of motor vehicles and motorcycles	-	14,427,245	-	-	14,427,245
Accommodation and food service activities	-	6,749,739	-	-	6,749,739
Construction	-	2,764,443	-	-	2,764,443
Transportation and storage	-	36,090,275	-	-	36,090,245
Professional, scientific and technical activities	-	51,324,870	-	-	51,324,870
Agriculture, forestry and fishing	-	12,332,106	-	-	12,332,106
Real estate activities	-	2,075,668	-	-	2,075,668
Manufacturing	-	1,652,035	-	-	1,652,035
Other service activities	-	98,233,349	-	5,398,580	103,631,949
	<b><u>P 603,333,366</u></b>	<b><u>P 225,809,845</u></b>	<b><u>P 573,535,784</u></b>	<b><u>P 5,398,580</u></b>	<b><u>P 1,408,077,575</u></b>

\* Includes loans and receivables arising from repurchase agreements



#### 4.2.2 Measurement of Expected Credit Losses

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as Standard & Poor's and Philippine Rating Services Corporation) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

##### (a) Significant Increase in Credit Risk

As outlined in PFRS 9, a '3-stage' impairment model shall be adopted by an entity based on changes in credit quality since initial recognition of the financial asset.

As discussed in Note 2.4(a), a financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the Bank as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.

The Bank also considers the quantitative criteria based on the BSP Manual of Regulations for Banks (MORB) Section 143 (Appendix 15), as amended by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9*, in classifying the status of loan.

A grouping of exposures for collective assessment is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous.

Certain qualitative criteria are also being considered by the Bank in assessing significant increase in credit risk (SICR). These are but not limited to: actual or expected short-term delays in payments which is normally not later than 30 days, extension to the terms granted, previous arrears within the last 12 months and significant adverse changes in business, financial and/or economic conditions in which the borrowers operate (e.g., calamities requiring BSP relief program).

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level. The criteria used to identify SIRC are monitored and reviewed periodically for appropriateness by the Bank's Management Committee guided by its Credit Risk Policy Manual.



As of December 31, 2022 and 2021, all of the Bank's financial assets are assessed as Stage 1 and there are certain financial assets that are classified as underperforming and non-performing accounts [see Note 23(d)].

(b) *Definition of Default and Credit-impaired Assets*

The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the borrower is more than 30 days past due on its contractual payments.
- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

(c) *Key Inputs, Assumptions and Estimation Techniques Used in Measurement of ECL*

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of PD, EAD and LGD, which are defined in Note 2.4(a).

The ECL is determined by projecting the PD, LGD, and EAD for each future period and for each collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (usually, an observation period of three to five years).

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values.

For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.2.2(d)]. Further, the assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made by the Bank in 2022.

*(d) Forward-looking Information Incorporated in the ECL Measurement*

The Bank incorporates forward-looking information (FLI) into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The relevant MEVs for selection generally include, but are not limited to, Gross Domestic Product growth, unemployment rate, foreign exchange, stock market index, consumer price indexes and interest rates. The impact of these economic variables has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data.

The significance of the selected MEVs as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

Other FLI considerations not otherwise incorporated, such as the impact of any regulatory, legislative, natural disasters, or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

*(e) Collective Basis of Measurement of ECL*

For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as instrument type, credit risk rating, collateral type, product type (credit cards, corporate loans, etc.), repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties.

The groupings are subject to the regular review by the Bank's RMC in order to ensure that credit exposures within a particular group remain appropriately homogenous.

#### **4.2.3 Modifications of Financial Assets**

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to.

Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is commonly applied to term or corporate loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset [see Note 2.4(a)]. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (wherein lifetime ECL is recognized) to Stage 1 (12-month ECL). As of December 31, 2022 and 2021, there were no modified assets held by the Bank.

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

The Bank has no modified financial assets with lifetime ECL for 2022 and 2021.

#### 4.2.4 Credit Risk Exposures

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the statements of financial position (or in the detailed analysis provided in the notes to the financial statements) as summarized below.

	Notes	2022	2021
Cash and and other cash items	8	<b>P 8,847,054</b>	P 9,053,886
Due from BSP	8	<b>302,124,571</b>	428,801,937
Due from other banks	8	<b>19,851,240</b>	22,230,644
Loans and receivables arising from repurchase agreement	8, 9	<b>208,343,199</b>	143,246,899
Investment securities at amortized cost	10	<b>673,603,644</b>	573,535,784
Loans and receivables – net	11	<b>189,192,891</b>	220,486,304
Refundable deposits	14	<b>6,297,255</b>	5,398,580
		<b><u>P 1,408,259,854</u></b>	<b><u>P 1,402,754,034</u></b>

All of the above financial assets are assessed as Stage 1 based on the ECL staging.

The Due from BSP account consists of deposits with the BSP for mandatory reserves and other than mandatory reserves. Mandatory reserves represent the balance of the deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Other than mandatory reserves include Overnight Deposit Facility (ODF) in 2022 and 2021 with the BSP which are maintained to maximize earnings from excess funds. Hence, no significant credit risk is anticipated for these accounts.

The Bank is able to manage the credit risk arising from due from other banks by ensuring that the banks where these financial assets are invested are of high reputation and good credit standing. Portion of due from other banks are secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under R.A. No. 9576, *Amendment to Charter of Philippine Depository Insurance Corporation*.

For investments in debt securities, credit risk is addressed by setting limits as to the maximum amount of investment that can be made on certain type of security with consideration of the credit quality of the counterparty.

The Bank is able to manage the credit risk arising from loans and receivables to individuals through adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) an independent credit risk assessment by the CC, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and (c) borrower credit analysis is performed at origination and at least annually thereafter.

As of December 31, 2022 and 2021, all of the Bank's financial assets were classified as neither past due nor impaired, except for those loans and receivables which were provided with allowance for impairment in current and prior years (see Note 11).

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained.

#### ***4.2.5 Allowance for Expected Credit Loss***

The ECL allowance on the Bank's loans and receivables does not significantly vary from that of the regulatory allowance as required by the BSP in accordance with MORB Section 143 (Appendix 15), as amended by BSP Circular 1011.

#### ***4.2.6 Collateral Held as Security and Other Credit Enhancements***

The Bank holds collateral against loans and receivables in the form of mortgage interests over property, other registered securities over assets, hold-out agreements and guarantees. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing, and generally not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets as of December 31, 2022 and 2021 is presented below.

	<u>2022</u>	<u>2021</u>
Against neither past due nor impaired		
Hold-out deposits	<b>P 114,039,108</b>	P 112,168,499
Chattel	<b>103,100,777</b>	130,342,378
Property	<b><u>80,647,180</u></b>	<u>41,494,000</u>
	<b><u>P 297,787,065</u></b>	<b><u>P 284,004,877</u></b>

The Bank does not hold property against past due but not impaired financial assets as of December 31, 2022 and 2021.

#### 4.2.7 Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

#### 4.3 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets. Market risk related to the Bank's financial instruments includes foreign currency and interest rate risks.

##### (a) Foreign Currency Risk

The Bank has no exposure to foreign currency risk as transactions are denominated in Philippine peso, its functional currency.

##### (b) Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-books positions to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would provide management an overview of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the Bank's financial assets and financial liabilities as of December 31, 2022 and 2021 based on the expected interest realization or recognition are presented below and in the succeeding page.

		One to Three Months	More than Three Months to One Year	More than One to Five Years	More than Five Years	Total
<b>2022:</b>						
Financial assets						
Due from BSP	P 302,124,571	P -	P -	P -	P -	P 302,124,571
Due from other banks	19,851,240	-	-	-	-	19,851,240
Loans and receivables arising from repur- chase agreement	208,343,199	-	-	-	-	208,343,199
Loans and receivables – net In- vestment securities at amortized cost	18,217,262	75,901,919	95,073,710	-	-	189,192,891
	<u>100,595,486</u>	<u>100,747,290</u>	<u>472,260,868</u>	<u>-</u>	<u>-</u>	<u>673,603,644</u>
Total financial assets	649,131,758	176,649,209	567,334,578	-	-	1,393,115,545
Financial liabilities						
Deposit liabilities	<u>605,367,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>605,367,487</u>
Net Position	<u>43,764,271</u>	<u>176,649,209</u>	<u>567,334,578</u>	<u>-</u>	<u>-</u>	<u>787,748,058</u>
Cumulative Net Position	<u>P 43,764,271</u>	<u>P 220,413,480</u>	<u>P 787,748,058</u>	<u>P 787,748,058</u>	<u>P -</u>	<u>P -</u>

	One to Three Months	More than Three Months to One Year	More than One to Five Years	More than Five Years	Total
<u>2021:</u>					
Financial assets					
Due from BSP	P 428,801,937	P -	P -	P -	P 428,801,937
Due from other banks	22,230,644	-	-	-	22,230,644
Loans and receivables arising from repur- chase agreement	143,246,899	-	-	-	143,246,899
Loans and receivables – net In- vestment securities at amortized cost	29,014,387	71,244,906	120,227,011	-	220,486,304
	-	-	473,176,062	100,359,722	573,535,784
Total financial assets	623,293,867	71,244,906	593,403,073	100,359,722	1,388,301,568
Financial liabilities					
Deposit liabilities	602,339,626	-	-	-	602,339,626
Net Position	20,954,241	71,244,906	593,403,073	100,359,722	785,961,942
Cumulative Net Position	P 20,954,241	P 92,199,147	P 685,602,220	P 785,961,942	P -

The Bank's exposure to interest rate risk pertains to the fluctuations in interest rates of its financial instruments. To minimize the possible adverse effects of these fluctuations on the Bank's profit or loss, only placements with interest rates that are within the prevailing market rates are pursued. Placements with interest rates, which are significantly higher or lower than the prevailing market rates, are not prioritized by the Bank following the concept of risk and return trade-off.

The table in the below illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/-1.50% and +/-1.40% in 2022 and 2021, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to change in interest rates. All other variables are held constant.

	2022	2021
	+50 bp -50 bp	+50 bp -50 bp
Profit before tax	P11,816,221 (P11,816,221)	P11,003,467 (P 11,003,467 )
Capital funds	8,862,166 ( 8,862,166)	8,252,600 ( 8,252,600 )

In addition, the Bank has no significant long-term borrowings with variable or fixed interest rates as of December 31, 2022 and 2021.



(c) *Liquidity Risk*

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The tables below present an analysis of the maturity groupings of financial assets and financial liabilities (except lease liabilities – see Note 13.2) as of December 31, 2022 and 2021 in accordance with BSP account classifications.

	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Total
<b>2022:</b>					
Financial assets					
Cash and other cash items	P 8,847,054	P -	P -	P -	P 8,847,054
Due from BSP	302,124,571	-	-	-	302,124,571
Due from other banks	19,851,240	-	-	-	19,851,240
Loans and receivables arising from repurchase agreement	208,343,199	-	-	-	208,343,199
Loans and receivables - net	18,217,262	75,901,919	95,073,710	-	189,192,891
Investment securities at amortized cost - net	100,595,486	100,747,290	472,260,868	-	673,603,644
Refundable deposits	900,800	2,361,321	19,200	3,015,934	6,297,255
Total financial assets	658,879,612	179,010,530	567,353,778	3,015,934	1,408,259,854
Financial liabilities					
Deposit liabilities	605,367,487	-	-	-	605,367,487
Other liabilities	6,322,092	-	-	-	6,322,092
Total financial liabilities	611,689,579	-	-	-	611,689,579
Net Position	47,190,033	179,010,530	567,353,778	3,015,934	796,570,275
Cumulative Net Position	P 47,190,033	P 226,200,563	P 793,554,341	P 796,570,275	P -
<b>2021:</b>					
Financial assets					
Cash and other cash items	P 9,053,886	P -	P -	P -	P 9,053,886
Due from BSP	428,801,937	-	-	-	428,801,937
Due from other banks	22,230,644	-	-	-	22,230,644
Loans and receivables arising from repurchase agreement	143,246,899	-	-	-	143,246,899
Loans and receivables - net	29,014,387	71,244,906	120,227,011	-	220,486,304
Investment securities at amortized cost - net	-	-	473,176,062	100,359,722	573,535,784
Refundable deposits	2,125	2,361,320	19,200	3,015,935	5,398,580
Total financial assets	632,349,878	73,606,226	593,422,273	103,375,657	1,402,754,034
Financial liabilities					
Deposit liabilities	602,339,625	-	-	-	602,339,625
Other liabilities	6,741,001	-	-	-	6,741,001
Total financial liabilities	609,080,626	-	-	-	609,080,626
Net Position	23,269,252	73,606,226	593,422,273	103,375,657	793,673,408
Cumulative Net Position	P 23,269,252	P 96,875,478	P 690,297,751	P 793,673,408	P -

## 5. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

### 5.1 *Capital Management and Regulatory Capital*

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to 10% percent of its risk assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
- (c) deferred tax asset or liability;
- (d) goodwill, if any;
- (e) sinking fund for redemption of redeemable preferred shares; and,
- (f) other regulatory deductions.

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

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

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

- (a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
- (b) investments in debt capital instruments of unconsolidated subsidiary banks;
- (c) investments in equity of subsidiary insurance companies and non-financial allied undertakings;
- (d) reciprocal investments in equity of other banks/enterprises; and,
- (e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The Bank's regulatory capital position as of December 31 follows:

	<u>2022</u>	<u>2021</u>
<b>Tier 1 Capital</b>		
Common stock	P 566,727,900	P 566,727,900
Surplus and reserves	219,365,667	217,247,981
Undivided profits for the year	<u>2,619,447</u>	<u>2,001,717</u>
	<b>788,713,014</b>	<b>785,977,598</b>
Less deduction from Tier 1 capital		
Total outstanding unsecured DOSRI loans	-	( 30,497)
Deferred tax assets	<u>( 5,123,332)</u>	<u>( 5,156,657)</u>
	<b>783,589,682</b>	<b>780,790,444</b>
<b>Tier 2 Capital</b>		
General loan loss provision	<u>900,000</u>	<u>1,050,000</u>
<b>Total Qualifying Capital</b>	<b><u>P 784,489,682</u></b>	<b><u>P 781,840,444</u></b>
<b>Total Risk Weighted Assets</b>		
Credit risk	P 123,728,982	P 154,240,783
Operational risk	<u>115,794,005</u>	<u>128,549,842</u>
	<b><u>P 239,522,987</u></b>	<b><u>P 282,790,625</u></b>

The Bank's credit risk weighted assets as of December 31 are computed as follows:

(a) 0% Risk Weight

	<u>2022</u>	<u>2021</u>
Cash and other cash items	<b>P 8,847,054</b>	P 9,053,886
Due from BSP	<b>302,124,571</b>	428,801,937
Investment securities at amortized cost	<b>670,076,457</b>	570,360,680
Loans and receivables arising from repurchase agreement/participation with recourse, and securities lending and borrowing transactions	<b>208,247,752</b>	143,238,941
Loans to the extent covered by hold-out on, or assignment of, deposit substitutes maintained with the lending bank	<b>111,403,258</b>	111,433,229
	<b>1,300,699,092</b>	1,262,888,673
	<b>0%</b>	0%
	<b>P -</b>	P -

(b) 100% Risk Weight

	<u>2022</u>	<u>2021</u>
Other assets, gross of general loan loss provision	<b>P 119,169,839</b>	P 144,246,325
Less:		
Total outstanding unsecured credit accommodations, both direct and indirect to DOSRI, net of allowance for credit losses	<b>-</b>	30,497
Deferred tax assets	<b>5,123,332</b>	5,156,657
	<b>5,123,332</b>	5,187,154
	<b>114,046,507</b>	139,059,171
	<b>100%</b>	100%
	<b>P 114,046,507</b>	P 139,059,171

(c) 150% Risk Weight

	<u>2022</u>	<u>2021</u>
Non-performing loans	<b>P 6,454,983</b>	P 10,121,075
	<u>150%</u>	<u>150%</u>
	<b><u>P 9,682,475</u></b>	<b><u>P 15,181,613</u></b>

There were no on-balance sheet accounts classified under 20%, 50% and 75% risk weights as of December 31, 2022 and 2021.

The Bank's operational risk weighted assets as of December 31 are computed as follows:

	<u>2022</u>	<u>2021</u>
Net Interest Income		
Interest income	<b>P 75,877,190</b>	P 85,248,301
Interest expense	<b>( 6,735,498)</b>	( 8,011,150)
	<b><u>69,141,692</u></b>	<b><u>77,237,151</u></b>
Other Non-interest Income		
Fees and commissions income	<b>7,949,799</b>	8,354,402
Other income	<b><u>104,513</u></b>	<u>108,341</u>
	<b><u>8,054,312</u></b>	<b><u>8,462,743</u></b>
Gross Income	<b><u>77,196,004</u></b>	<b><u>85,699,894</u></b>
Capital Charge (12%)	<b><u>9,263,520</u></b>	<b><u>10,283,987</u></b>
Adjusted Capital Charge (125%)	<b>11,579,401</b>	12,854,984
Multiplied by factor 10	<u>10</u>	<u>10</u>
Total Operational Risk-Weighted Assets	<b><u>P 115,794,010</u></b>	<b><u>P 128,549,840</u></b>

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk.

	<u>2022</u>	<u>2021</u>
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	<b>327.52 %</b>	276.47%
Total Tier 1 capital expressed as percentage of total risk weighted assets	<b>327.15%</b>	276.10%

As of December 31, 2022 and 2021, based on the above capital ratios, the Bank has complied with the BSP requirement on the ratio of combined capital accounts against the risk assets.

Prior to October 9, 2014, a thrift bank whose head office is located in Metro Manila is required to have a minimum capital of P400.0 million. Subsequently, the BSP issued Circular No. 854, *Minimum Capitalization of Banks*, and increased the minimum capitalization requirement to P750.0 million which must be satisfied within five years from the date of effectivity. Banks which comply with the amended capital levels must submit to the BSP a certification within 30 calendar days from the date of effectivity of this circular. Banks not meeting the minimum required capital must submit to the BSP within one year from the date of effectivity of this circular an acceptable capital build-up program. In 2022 and 2021, the Bank complies with minimum capitalization requirement.

## 5.2 Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible of the operation and is subject to review by the Bank's Executive Committee.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

## 5.3 Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as of December 31, 2022 and 2021 are analyzed below.

	<u>2022</u>	<u>2021</u>
Eligible stock of liquid assets	<b>P1,209,030,824</b>	P 1,173,669,045
Total qualifying liabilities	<b><u>616,521,668</u></b>	<u>611,611,623</u>
MLR	<b><u>196.11%</u></b>	<u>191.90%</u>

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets presented in the statements of financial position are shown below.

		<u>2022</u>		<u>2021</u>	
		Carrying	Fair	Carrying	Fair
Notes	Amounts	Values	Amounts	Values	Values
<b>Financial asset:</b>					
Loans and receivables – net	11	P 189,192,891	P 189,192,891	P 220,486,304	P 220,486,304
Refundable deposits	14	6,297,255	6,297,255	5,398,580	5,398,580
Investment securities at amortized cost	10	<u>673,603,644</u>	<u>659,744,108</u>	<u>573,535,784</u>	<u>583,460,732</u>
		<b><u>P 869,093,790</u></b>	<b><u>P 855,234,253</u></b>	<b><u>P 799,420,668</u></b>	<b><u>P 809,345,616</u></b>

See Note 2.4 for a description of the accounting policies for each category of financial instruments including the determination of fair values.

A description of the Bank's risk management objectives and policies for financial instruments is provided in Notes 4.1 and 4.2.

### 6.2 Offsetting Financial Assets and Financial Liabilities

The Bank's loans and receivables secured through hold-out on deposits are the only financial assets subject to offsetting, enforceable master netting arrangements and similar agreements. However, the Bank does not present such loans and receivables net of the deposit liabilities in the statements of financial position.

The following are the gross amounts of loans and receivables and the related hold-out deposits:

		<u>Loans and Receivables</u>	<u>Hold-out on Deposits</u>	<u>Net Amount</u>
December 31, 2022	P	111,881,105	(P 114,039,108)	(P 2,158,003)
December 31, 2021	P	111,881,105	(P 112,168,499)	(P 287,394)

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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



## 7.2 Financial Instruments Measured at Fair Value

The Bank does not have financial instruments measured at fair value as of December 31, 2022 and 2021.

## 7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The Bank has certain financial assets and financial liabilities measured at amortized cost as of the end of the reporting period whose related fair value are disclosed (see Note 6.1). As those financial instruments are mostly short-term in nature, management considers the carrying amounts of those instruments to approximate their fair values.

The table below summarizes the fair value hierarchy of the Bank's financial assets which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
<b>2022:</b>					
<i>Financial assets:</i>					
At amortized cost:					
Loans and receivables – net	11	P -	P -	P 189,192,891	P 189,192,891
Investment securities	10	659,744,108	-	-	659,744,108
<b>2021:</b>					
<i>Financial assets:</i>					
At amortized cost:					
Loans and receivables – net	11	-	-	220,486,304	220,486,304
Investment securities	10	583,460,732	-	-	583,460,732

For financial assets and financial liabilities, other than Investment securities at amortized cost, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. Investment securities at amortized cost consist of government securities issued by various Philippine agencies and corporate debt securities with fair value determined based on prices published in BVAL, which represent the net clean close prices at the end of the reporting period.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

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

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 are as follows:

	Note	2022	2021
Cash and other cash items		P 8,847,054	P 9,053,886
Due from BSP		302,124,571	428,801,937
Due from other banks		19,851,240	22,230,644
Loans and receivables arising from repurchase agreement	9	208,343,199	143,246,899
		<u>P 539,166,064</u>	<u>P 603,333,366</u>

Cash and other cash items include total amount of cash in the Bank's vault and checks and other cash items.

Due from BSP account consists of deposits with the BSP for mandatory reserves and other than mandatory reserves. Mandatory reserves represent the balance of the deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Other than mandatory reserves, this account includes ODF in both 2022 and 2021 with the BSP which are maintained to maximize earnings from excess funds earning effective interest from 1.5% to 5.0% in 2022 and 1.5% for 2021. Interest income earned from due from BSP is presented under Interest Income from Due from BSP and Other Banks in the statements of comprehensive income.

Due from other banks consist of demand, savings and short-term time deposits. Savings deposits earn effective interest ranging from 0.10% to 0.13% both in 2022 and 2021.

## 9. **LOANS AND RECEIVABLES ARISING FROM RE-PURCHASE AGREEMENT**

These represent loans and receivables from BSP as of December 31, 2022 and 2021 arising from overnight lending from excess liquidity which earn effective interest from 2.0% to 5.5% in 2022 and 2.0% in 2021. These loans have a term of five days in 2022 and 2021 and are included as cash and cash equivalents for cash flow reporting purposes (see Note 2.4). Interest income earned from these financial assets is presented under Interest Income in the statements of comprehensive income.

## 10. **INVESTMENT SECURITIES AT AMORTIZED COST**

The maturity profile of the Bank's investment securities at amortized cost, consisting of government-issued securities, is presented below.

	<u>2022</u>	<u>2021</u>
Within five years	<b>P 673,603,644</b>	P 473,176,062
Beyond five years	<u>-</u>	<u>100,359,722</u>
	<b><u>P 673,603,644</u></b>	<b><u>P 573,535,784</u></b>

Effective interest rates on these assets range from 2.4% to 4.9% per annum in 2022 and from 2.4% to 5.2% per annum in 2021. The Bank's interest income from investments securities at amortized cost amounted to P24.1 million and P17.5 million in 2022 and 2021, respectively, as presented in the statements of comprehensive income.

Changes in the Bank's investment securities at amortized cost are summarized below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	<b>P 570,360,680</b>	P 442,937,866
Additions	<b>100,000,000</b>	250,000,000
Premium amortization	<b>( 284,223)</b>	( 277,186)
Maturities	<u>-</u>	<u>( 122,300,000)</u>
	<b>670,076,457</b>	570,360,680
Accrued interest income	<b><u>3,527,187</u></b>	<u>3,175,104</u>
Balance at end of year	<b><u>P 673,603,644</u></b>	<b><u>P 573,535,784</u></b>

As of December 31, 2022 and 2021, the fair value of the Bank's investments securities at amortized cost is P659.7 million and P583.5 million, respectively (see Note 6.1).

## 11. LOANS AND RECEIVABLES

This account is composed of the following:

	Note	2022	2021
Receivables from customers	19	P 191,895,217	P 220,889,869
Accrued interest income			<u>1,346,885</u>
		<u>1,946,069</u>	<u>222,835,938</u>
Unamortized direct acquisition cost		1,752,177	3,503,823
Allowance for impairment		( 5,323,541)	( 5,323,541)
Unearned discount		( <u>477,847</u> )	( <u>529,916</u> )
		<u>P 189,192,891</u>	<u>P 220,486,304</u>

The maturity profile of the Bank's loans and receivables follows:

	2022	2021
Within one year	P 94,119,181	P 100,259,294
Within two to five years	<u>95,073,710</u>	<u>120,227,010</u>
	<u>P 189,192,891</u>	<u>P 220,486,304</u>

The Bank has no restructured loans in both years. The breakdown of receivables from customer as to loan status (after allowance for impairment losses) are shown in the table below.

	2022	2021
Current	<u>P 185,176,087</u>	<u>P 208,354,852</u>
Past Due:		
Performing	264,145	2,413,942
Non-performing	<u>6,454,983</u>	<u>10,121,075</u>
Total past due	<u>6,719,128</u>	<u>12,535,017</u>
Total	191,895,215	220,889,869
Accrued interest receivable	<u>1,346,885</u>	<u>1,946,069</u>
	<u>193,242,102</u>	<u>222,835,938</u>
Unamortized direct acquisition cost	1,752,177	3,503,823
Allowance for impairment	( 5,323,541)	( 5,323,541)
Unearned discount	( <u>477,847</u> )	( <u>529,916</u> )
	<u>P 189,192,891</u>	<u>P 220,486,304</u>

The Bank loans and receivable classified as to type of loan is as follow:

	<u>Performing</u>	<u>Non-performing</u>	<u>Total Loan Portfolio</u>
<b>December 31, 2022</b>			
Loans to individual	P 264,145	P 5,657,473	P 5,921,618
Loans to private corporation	-	212,851	212,851
Medium enterprises	-	199,867	199,867
Other microenterprise entity	-	384,793	384,793
<b>Net carrying amount</b>	<b><u>P 264,145</u></b>	<b><u>P 6,454,984</u></b>	<b><u>P 6,719,129</u></b>

December 31, 2021

Loans to individual	P 2,413,942	P 8,852,272	P 11,266,214
Loans to private corporation	-	212,851	212,851
Medium enterprises	-	199,867	199,867
Other microenterprise entity	-	856,085	856,085
<b>Net carrying amount</b>	<b><u>P 2,413,942</u></b>	<b><u>P 10,121,075</u></b>	<b><u>P 12,535,017</u></b>

The breakdown of gross receivables from customers as to type of security follows:

	<u>2022</u>	<u>2021</u>
Secured:		
Chattel mortgage	<b>P 59,403,874</b>	P 84,550,164
Hold-out on deposit	<b>111,881,105</b>	111,881,105
Real estate mortgage	<b><u>18,010,238</u></b>	<u>17,073,103</u>
	<b>191,895,217</b>	213,504,372
Unsecured loans	<b><u>2,600,000</u></b>	<u>7,385,496</u>
	<b><u>P 191,895,217</u></b>	<b><u>P 220,889,869</u></b>

There were no movements on the Bank's beginning and ending balance of allowance for impairment for both 2022 and 2021.

Loans and receivables earn annual effective interest at rates ranging from 4.0% to 26.6% in 2022 and from 4.25% to 27.4% in 2021. Interest income earned from these financial assets is presented under Interest Income in the statements of comprehensive income.

Unamortized direct acquisition cost pertains to directly attributable cost incurred by the Bank relating to the origination of their auto loans. These costs are amortized using the effective interest method. In 2022 and 2021, amortization of direct acquisition of P2.6 million and P5.3 million, respectively, are presented as reduction to Interest Income on Loans and Receivables in the statements of comprehensive income.

The total outstanding DOSRI loans granted by the Bank amounted to nil and P30,497 as of December 31, 2022 and 2021, respectively. They are employee loans granted under the BSP approved Employee Fringe Benefit Plan. The Bank is in compliance with the BSP requirement on DOSRI accounts (see Note 19.1).

In 2022 and 2021, the Bank's non-performing loans are all pertaining to auto-loans.

## 12. **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT**

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

	<b>Leasehold</b>	<b>Furniture, Fixtures and</b>	
	<b>Improvements</b>	<b>Equipment</b>	<b>Total</b>
<b>December 31, 2022</b>			
Cost	P 10,795,674	P 28,989,609	P 39,785,283
Accumulated depreciation and amortization	( 10,795,674 )	( 24,185,591 )	( 34,981,265 )
Net carrying amount	<u><u>P -</u></u>	<u><u>P 4,804,018</u></u>	<u><u>P 4,804,018</u></u>
<b>December 31, 2021</b>			
Cost	P 10,795,674	P 30,715,500	P 41,511,174
Accumulated depreciation and amortization	( 10,795,674 )	( 26,648,592 )	( 37,444,266 )
Net carrying amount	<u><u>P -</u></u>	<u><u>P 4,066,908</u></u>	<u><u>P 4,066,908</u></u>
<b>January 1, 2021</b>			
Cost	P 10,795,674	P 26,929,503	P 37,725,177
Accumulated depreciation and amortization	( 10,795,674 )	( 23,058,370 )	( 33,854,044 )
Net carrying amount	<u><u>P -</u></u>	<u><u>P 3,871,133</u></u>	<u><u>P 3,871,133</u></u>

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

	<u>2022</u>	<u>2021</u>
Balance at January 1, net of		
accumulated depreciation and amortization	<b>P 4,066,908</b>	P 3,871,133
Additions	<b>2,342,822</b>	1,501,881
Disposal	( 1,549)	-
Depreciation and amortization charges for the year	( <u>1,604,163</u> )	( <u>1,306,106</u> )
Balance at December 31,		
net of accumulated depreciation and amortization	<b><u>P 4,804,018</u></b>	<b><u>P 4,066,908</u></b>

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this BSP requirement.

In 2022, the Bank recognized gain on sale of equipment totaling P0.7 million and is presented as part of Others under Other Income in the 2022 statement of comprehensive income. There was no similar transaction in 2021.

Certain fully depreciated furniture and fixtures, and equipment with original cost amounting to P17.0 million and P20.7 million are still being used in operations as of December 31, 2022 and 2021, respectively.

### 13. LEASES

The Bank has leases for certain offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term.

The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over offices, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

As of December 31, 2022 and 2021, the Bank has two right-of-use assets leased with remaining lease term ranging from two months to 54 months and two to 14 months respectively; thus, having an average remaining lease term of 28 months and eight months, respectively. These leased assets do not have any enforceable extension options, options to purchase and termination options.

### 13.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets for its offices are presented in the statements of financial position and the movement during the year is shown below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 926,854	P 997,307
Additions	3,316,544	952,952
Depreciation and amortization	(1,056,626)	(1,023,405)
Balance at end of year	<u>P 3,186,772</u>	<u>P 926,854</u>

### 13.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position are as follows (see Note 16):

	<u>2022</u>	<u>2021</u>
Current	P 681,900	P 893,173
Non-current	<u>2,682,966</u>	<u>140,078</u>
	<u>P 3,364,866</u>	<u>P 1,035,251</u>

As at December 31, 2022 and 2021, the Bank has no lease commitments which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities are as follows:

	<u>2022</u>	<u>2021</u>
Within one year	P 789,713	P 1,176,987
Within one year but not more than five years	<u>2,430,103</u>	<u>1,036,915</u>
	<u>P 3,219,816</u>	<u>P 2,213,902</u>



### 13.3 Lease Payments Not Recognized as Liabilities

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

The expenses relating to short-term leases amounted to P1.0 million in 2022 and 2021 and are presented as Occupancy under Other Operating Expenses in the statements of comprehensive income.

At December 31, 2022 and 2021, the Bank is not committed to any short-term leases.

### 13.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P1.2 million both in 2022 and 2021. Interest expense in relation to lease liabilities amounted to P0.3 million and P0.1 million for 2022 and 2021, respectively, and is presented as part of Others under Interest Expense in the statements of comprehensive income.

## 14. OTHER RESOURCES

Other resources include the following:

	Note	2022	2021
Refundable deposits		P 6,297,255	P 5,398,580
Deferred tax assets - net	21	5,123,332	5,156,657
Prepaid expenses		784,556	974,741
Stationery and unused supplies		897,716	1,009,001
Computer software - net		1,546,423	565,186
Others		821,241	752,691
		<b>P 15,470,523</b>	<b>P 13,856,856</b>

Refundable deposits are remeasured at amortized cost using the effective interest rates at the inception of the lease contracts. The fair values on initial recognition of the refundable deposits were determined by calculating the present value of the future cash flows anticipated until the end of the lease term using discount rates determined by reference to market interest rate of comparable financial instrument.

Computer software represents computer software and licenses purchased by the Bank and amortized over five years. In 2022, the Bank has additional acquisitions amounting to P1.7 million. No similar transaction in 2021. Amortization charges related to software costs amounted to P674,793 and P996,652 in 2022 and 2021, respectively, and is presented as part of Others under Other Operating Expenses in the statements of comprehensive income (see Note 18).

The maturity profile of the Bank's other resources are as follows:

	<u>2022</u>	<u>2021</u>
Within one year	<b>P 2,350,180</b>	P 2,583,101
More than one year	<u><b>13,120,343</b></u>	<u>11,273,755</u>
	<u><b>P 15,470,523</b></u>	<u>P 13,856,856</u>

## 15. **DEPOSIT LIABILITIES**

This account consists of the following:

	<u>2022</u>	<u>2021</u>
Demand	<b>P 36,861,664</b>	P 53,254,217
Savings	<b>566,279,471</b>	546,686,460
Time	<u><b>2,226,352</b></u>	<u>2,398,949</u>
	<u><b>P 605,367,487</b></u>	<u>P 602,339,626</u>

As of December 31, 2022 and 2021, all of the Bank's deposit liabilities have maturity of one year or less.

Certain special savings accounts and time deposits have maturity of one to 30 days, with interest rates ranging from 1.0% to 3.0% per annum in 2022 and 2021.

In 2014, required reserves against deposit and deposit substitute liabilities shall be 8.0% for demand, savings and time deposits under BSP issued Circular No. 832, *Increase in Reserve Requirements*. Further, in 2018, BSP Circular No. 1004, *Reduction in Reserve Requirements*, was released and it retained the reserve requirements for thrift banks. In 2019, BSP released BSP Circular No. 1063, *Reduction in Reserve Requirements*, reducing the required reserves to 4% for thrift banks. In 2020, BSP Circular No. 1092, *Reduction in Reserve Requirements* was released further reducing the required reserves to 3.0%. The Bank is in compliance with these BSP regulations as of the end of each reporting period.

Deposit liabilities incur annual interests at rates ranging from 0.5% to 1.0% both in 2022 and 2021. Interest expense incurred from these is presented under Interest Expense in the statements of comprehensive income.

## 16. **OTHER LIABILITIES**

The breakdown of this account is shown below.

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Retirement benefit obligation	20.2	P 20,597,027	P 19,134,679
Lease liabilities	13.2	3,364,866	1,035,251
Accrued expenses		2,626,184	2,377,387
Manager's checks		1,264,172	1,834,587
Dormant credits		1,050,910	900,969
Income tax payable		789,599	712,229
Withholding tax payable		269,828	265,684
Others		<u>1,380,827</u>	<u>1,628,062</u>
		<u>P 31,343,413</u>	<u>P 27,888,848</u>

The Bank has no secured liabilities and assets pledged as securities as of December 31, 2022 and 2021.

## 17. **CAPITAL FUNDS**

The Bank's authorized common stock is P1,000,000,000, divided into 10,000,000 shares with a par value of P100 per share.

The Bank's issued and outstanding shares as of December 31, 2022 and 2021 totaled to 5,667,279 shares amounting to P566,727,900.

The Bank has 29 stockholders owning 100 or more shares each of the Bank's common stock, as of December 31, 2022 and 2021.

## 18. OTHER OPERATING EXPENSES

This account is composed of the following:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Repairs and maintenance		<b>P 763,667</b>	P 1,071,772
Amortization of computer software	14	<b>674,793</b>	996,652
Fuel and lubricants		<b>661,316</b>	454,266
Stationery and supplies		<b>590,441</b>	603,611
Postage, telephone and cables		<b>507,985</b>	553,899
Supervision and examination fees		<b>324,352</b>	356,909
Advertising		<b>143,736</b>	81,936
Travel		<b>12,950</b>	118,440
Miscellaneous		<b><u>1,192,188</u></b>	<u>690,368</u>
		<b><u>P 4,871,428</u></b>	<b><u>P 4,927,853</u></b>

## 19. RELATED PARTY TRANSACTIONS

The summary of the Bank's significant transactions with its related parties as of and for the years ended December 31, 2022 and 2021 is as follows:

		<u>2022</u>		<u>2021</u>	
<b>Related Party</b>		<b>Amount of</b>	<b>Outstanding</b>	<b>Amount of</b>	<b>Outstanding</b>
<u>Category</u>	<u>Note</u>	<u>Transaction</u>	<u>Balance</u>	<u>Transaction</u>	<u>Balance</u>
<b>Key Management Personnel:</b>					
Loans	19.1	(P 30,497)	P -	(P P1,169)	P 30,497
Deposits	19.1	( 5,641,001)	57,598,535	( 26,704,991)	63,239,536
Compensation	19.3	8,251,194	-	8,197,501	-
<b>Related Party Under Common Ownership:</b>					
Loans	19.2	2,330	58,396,177	( 25,884)	58,393,847
Deposits	19.2	4,299,087	339,506,198	75,510,470	335,207,111

### 19.1 DOSRI Loans and Deposits

In the ordinary course of business, the Bank has loan and deposit transactions with certain DOSRI. Under existing policies of the Bank, these loans and deposits are made substantially on the same terms as with other individuals and businesses of comparable risks. Based on management's assessment as at December 31, 2021, no impairment is required to be recognized on the Bank's loans to DOSRI.

Loans to DOSRI, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11), will mature within one to two years, 12.0% interest in 2021. As of December 31, 2021, the Bank does not have any past due or non-performing DOSRI loans. As of December 31, 2022, the Bank has no outstanding DOSRI loans.

Deposits from DOSRI, which are shown as part of Deposit Liabilities account in the statements of financial position (see Note 15), have maturity of up to 30 days, with interest rates earning from 0.25% to 1.7% per annum in 2022 and 2021.

Other information relating to the loans and guarantees granted to DOSRI and other related parties are presented in Note 23(f).

### ***19.2 Other Related Party Transactions***

The Bank has related party transactions in accordance with the existing policies and procedures, which are entered into the best interest of the Bank and consistent with the policy of transparency, fairness and integrity. Significant or material transactions that exceeded the defined materiality threshold limit were duly approved by the BOD.

Related party transactions on loans with original principal amount of P58,500,000, has an outstanding balance of P58,396,177 and P58,393,847 as of December 31, 2022 and 2021, respectively, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11), will mature within one to two years, and earn 12.0% interest both in 2022 and 2021. These loans are fully secured with deposits and incur from 10.0% to 12.3% interest in both years.

Deposits from other related parties amounting to P339,506,198 and P335,307,111 as of December 31, 2022 and 2021, respectively, are shown as part of Deposit Liabilities account in the statements of financial position (see Note 15), and have maturity of up to 30 days, with interest rates ranging from 0.25% to 1.75% per annum both in 2022 and 2021.

On July 1, 2007, the Bank entered into a five-year contract of lease with LHI Real Estate Corporation, a related entity under common ownership, and renewed on July 1, 2012 for another five years. On June 30, 2017, the same contract was renewed until June 30, 2022. In 2019, the Bank received written notice from the lessor waiving the rent until further notice. In 2022, the same contract was renewed for another five years.

### 19.3 Key Management Personnel

The compensation of key management personnel pertains to short-term benefits only.

The total expense is shown as part of Employee Benefits account in the statements of comprehensive income (see Note 20).

## 20. EMPLOYEE BENEFITS

### 20.1 Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Note	2022	2021
Short-term employee benefits		P 23,969,662	P 22,791,558
Post-employment defined benefits	20.2(b)	<u>619,665</u>	<u>694,141</u>
		<u>P 24,589,327</u>	<u>P 23,485,699</u>

### 20.2 Post-employment Benefits

#### (a) Characteristics of the Defined Benefit Plan

The Bank does not have an established retirement plan and only conforms to the minimum regulatory benefit under R.A. No. 7641, *The Retirement Pay Law*, which is of the defined benefit type and provides a retirement benefit in lump sum equal to 22.5-day pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement. The normal retirement age is 60 with a minimum of five years of credited service.

The retirement plan is unfunded as of the end of the reporting period.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made every year to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary in 2022 and 2021.

The movements in present value of the retirement benefit obligation recognized in the books are as follows presented as part of Other Liabilities (see Note 16)]:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	<b>P 19,134,679</b>	P 19,895,159
Interest cost	<b>958,647</b>	773,921
Current service cost	<b>619,665</b>	694,141
Benefits paid	-	( 1,223,440)
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	( <b>849,185</b> )	( 433,396)
Changes in demographic assumptions	<b>45,472</b>	( 314,547)
Experience adjustments	<u><b>687,749</b></u>	<u>( 257,159)</u>
Balance at end of year	<u><b>P 20,597,027</b></u>	<u>P 19,134,679</u>

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit obligation are as follows:

	<u>2022</u>	<u>2021</u>
<i>Recognized in profit or loss:</i>		
Current service cost	<b>P 619,665</b>	P 694,141
Interest expense	<u><b>958,647</b></u>	<u>773,921</u>
	<u><b>P 1,578,312</b></u>	<u>P 1,468,062</u>
<i>Recognized in other comprehensive income:</i>		
Actuarial gains (losses) from:		
Changes in financial assumptions	<b>P 849,185</b>	P 433,396
Experience adjustments	( <b>687,749</b> )	257,159
Changes in demographic assumptions	<u>( <b>45,472</b>)</u>	<u>314,547</u>
	<u><b>P 115,964</b></u>	<u>P 1,005,102</u>

Current service cost is presented as part of Employee Benefits account (see Note 20.1) under Other Operating Expenses while interest expense is presented as part of Others under Interest Expense in the statements of comprehensive income.

Amounts recognized in other comprehensive income were included within the item that will not be reclassified subsequently to profit or loss.

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

	<u>2022</u>	<u>2021</u>
Discount rates	7.34%	5.00%
Expected rate of salary increases	2.00%	2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 19.7 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds determined using BVAL with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Interest Rate Risk*

The present value of the defined benefit obligation (DBO) is calculated using a discount rate determined by reference to market yields of government bonds.

Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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



(i) *Sensitivity Analysis*

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the DBO at the actuarial valuation report date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement, based on changes in the relevant assumption that were reasonably possible at the valuation date, while all other assumptions remained unchanged.

The sensitivities were expressed as the corresponding change in the DBO.

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2022 and 2021.

	<b>Impact on retirement benefit obligation</b>		
	<b>Change in</b>	<b>Increase in</b>	<b>Decrease in</b>
	<b>assumption</b>	<b>assumption</b>	<b>assumption</b>
<b><u>December 31, 2022</u></b>			
Discount rate	+/-0.50%	( P 163,792 )	P 169,816
Salary increase rate	+/-1.00%	361,188 (	341,374)
<b><u>December 31, 2021</u></b>			
Discount rate	+/-0.50%	( P 179,567 )	P 187,876
Salary increase rate	+/-1.00%	192,585 (	185,633)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the DBO to significant actuarial assumptions, the same method (present value of the DBO calculated with the projected unit credit method at end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial position.

(ii) *Funding Arrangements and Expected Contributions*

The Bank does not have a formal retirement plan and does not maintain any funded plan assets. Moreover, the Bank's management does not plan to establish funded plan assets for its DBO as at the end of the year. As such, no contribution is expected in the succeeding year.

The maturity profile of undiscounted expected benefit payments is as follows:

	<u>2022</u>	<u>2021</u>
Within one year	<b>P 17,236,913</b>	P 16,276,983
More than one year to five years	<b>1,239,158</b>	587,209
More than five years	<u><b>6,263,331</b></u>	<u>3,299,858</u>
	<u><b>P 24,739,402</b></u>	<u>P 20,164,050</u>

The weighted average duration of the DBO at the end of the reporting period is 1.6 years.

## 21. TAXES

The components of tax expense as reported in profit or loss follow:

	<u>2022</u>	<u>2021</u>
Current tax expense:		
Final tax at 20%	<b>P 7,374,876</b>	P 5,394,508
Minimum corporate income tax tax (MCIT) at 1%	<u><b>201,876</b></u>	<u>116,214</u>
	<b>7,576,752</b>	5,510,722
Deferred tax expense arising from origination and reversal of temporary differences	<u><b>33,325</b></u>	<u>24,480</u>
	<u><b>P 7,610,077</b></u>	<u>P 5,535,202</u>

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

	<u>2022</u>	<u>2021</u>
Tax on pretax profit at 25%	P 2,557,382	P 1,716,477
Adjustment for income subjected to lower tax rates	( 1,843,719)	( 1,348,627)
Tax effects of:		
Unrecognized deferred tax arising from:		
Net operating loss carryover (NOLCO)	5,223,872	3,719,514
MCIT	201,876	283,967
Retirement benefit obligation	365,587	-
Lease arrangements	62,317	84,821
Non-deductible expenses	<u>1,042,762</u>	<u>1,079,050</u>
Tax expense	<u>P 7,610,077</u>	<u>P 5,535,202</u>

The net deferred tax assets [shown as part of Other Resources (see Note 14)] as of December 31, 2022 and 2021 pertain to the following:

	<b>Statements</b>			
	<u>of Financial Position</u>		<u>Statements of Income</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Deferred tax assets:				
Retirement benefit obligation	P 3,901,570	P 3,901,570	P -	P -
Allowance for impairment	1,221,762	1,221,762	-	- Lease
liabilities	<u>-</u>	<u>332,517</u>	( 332,517)	( 24,480)
	<u>5,123,332</u>	<u>5,455,849</u>	( 332,517)	( 24,480)
Deferred tax liability:				
Right-of-use assets	<u>-</u>	<u>( 299,192)</u>	<u>299,192</u>	<u>-</u>
Net Deferred Tax Assets	<u>P 5,123,332</u>	<u>P 5,156,657</u>		
Deferred Tax Expense			( P 33,325)	( P 24,480)

The Bank is subject to MCIT, which is computed at 1.0% of gross income as defined under the tax regulations. MCIT can be claimed as deductions against regular corporate income tax within three years.

The Bank's remaining MCIT are as follows:

<u>Year</u>	<u>MCIT</u>	<u>End of Availment</u>
2022	201,876	2025
2021	283,967	2024
2020	<u>671,012</u>	2023
	<u>P 1,156,855</u>	

The Bank's MCIT of P879,861 in 2019 and P893,409 in 2018 expired in 2022 and 2021, respectively.

Pursuant to the issuance of Revenue Regulations No. 25-2020 to implement Section 4(bbbb) of Republic Act No. 11494, the net operating loss incurred for the taxable year 2020 and 2021 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss. The Bank's NOLCO incurred in taxable years 2021 and 2020 are as follows:

<u>Year</u>	<u>NOLCO</u>	<u>End of Availment</u>
2021	14,878,057	2026
2020	<u>11,403,128</u>	2025
	<u>P 26,281,185</u>	

As of December 31, 2022, the Bank has incurred NOLCO of P20,895,487 which can be claimed as deduction from the regular taxable income for the next three consecutive taxable years or by 2025. Accordingly, the Bank's NOLCO of P6,394,435 and P4,520,701 incurred in 2019 and 2018, respectively, expired in 2022 and 2021, respectively.

The Bank has taken a conservative position of not recognizing the deferred tax assets arising from the MCIT, NOLCO and other temporary differences since the management assessed that these will not be realized in the succeeding years. The details of unrecognized deferred tax assets are as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
NOLCO	P 47,176,672	P 11,794,168	P 32,675,620	P 8,168,905
Retirement benefit obligation	7,591,796	1,897,949	6,129,448	1,532,362
MCIT	1,156,855	1,156,855	1,383,120	1,383,120
Allowance for impairment	1,251,000	312,750	1,251,000	312,750
Lease arrangements – net	<u>178,095</u>	<u>44,524</u>	<u>-</u>	<u>-</u>
	<u>P 57,354,418</u>	<u>P 15,206,246</u>	<u>P 41,439,188</u>	<u>P 11,397,137</u>

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

## 22. **COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not given recognition in the Bank's financial statements. As of December 31, 2022, management believes that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the financial statements. The Bank is not involved in any litigation as of December 31, 2022 and 2021. Moreover, the Bank does not have liabilities that are secured by any of its assets as of those dates.

## 23. **SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP**

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

### (a) *Selected Financial Performance Indicators*

The following are some measures of the Bank's financial performance indicators:

	<u>2022</u>	<u>2021</u>
a. Return on equity		
<u>Net profit</u>	<b>0.33%</b>	0.26%
Average total capital accounts		
b. Return on average resources		
<u>Net profit</u>	<b>0.18%</b>	0.14%
Average total resources		
c. Net interest margin		
<u>Net interest income</u>	<b>4.21%</b>	3.84%
Average interest earning resources		
d. Capital-to-risk assets ratio		
<u>Total capital</u>	<b>327.52%</b>	276.47%
Risk assets		

(b) *Capital Instruments Issued*

As of December 31, 2022 and 2021, the Bank has only class of common stock, which are common shares.

As of December 31, 2022 and 2021, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL is presented below.

	2022		2021	
	Amount	Percentage	Amount	Percentage
Professional, scientific and technical activities	P 51,124,856	26.3%	P 51,324,870	22.7%
Transportation and storage	43,736,170	22.5%	36,090,275	16.0%
Whole and retail trade, repair of motor vehicles and motorcycle	458,673	0.2%	14,427,245	6.4%
Agriculture, forestry and fishing	13,813,489	7.1%	12,332,106	5.5%
Accommodation and food service activities	701,889	0.4%	6,749,739	3.0%
Construction	1,807,882	0.9%	2,764,443	1.2%
Real estate activities	457,152	0.2%	2,075,668	0.9%
Manufacturing	356,988	0.2%	1,652,035	0.7%
Financial intermediaries	-	0.0%	160,115	0.1%
Other service activities	82,059,333	42.2%	98,233,349	43.5%
	<b>P 194,516,432</b>	<b>100%</b>	<b>P 225,809,845</b>	<b>100%</b>

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(d) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

	<u>Performing</u>	<u>Non-performing</u>	<u>Total Loan Portfolio</u>
<b><u>2022:</u></b>			
Gross carrying amount	P 185,440,234	P 6,454,983	P 191,895,217
Allowance for ECL	( 900,000 )	( 4,423,541 )	( 5,323,541 )
<b>Net carrying amount</b>	<b><u>P 184,540,234</u></b>	<b><u>P 2,031,442</u></b>	<b><u>P 186,571,676</u></b>
<b><u>2021:</u></b>			
Gross carrying amount	P 210,768,794	P 10,121,075	P 220,889,869
Allowance for ECL	( 1,050,000 )	( 4,273,541 )	( 5,323,541 )
<b>Net carrying amount</b>	<b><u>P 209,718,794</u></b>	<b><u>P 5,847,534</u></b>	<b><u>P 215,566,328</u></b>

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal 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 unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

The breakdown of receivable from customers as to loans status is disclosed in Note 11.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of receivable from customers, gross of allowance as to security are disclosed in Note 11.

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this requirement.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	Related Party Loans			
	DOSRI Loans		(inclusive of DOSRI)	
	2022	2021	2022	2021
Total outstanding loans	P -	P 30,497	P 58,450,227	P 58,450,227
% of loans to total loan portfolio	0.00%	0.01%	30.46%	26.46%
% of unsecured loans to total DOSRI/related party loans	0.00%	0.05%	0.00%	0.05%
% of past due loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%
% of non-performing loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%

(g) *Secured Liabilities and Assets Pledged as Security*

The Bank does not have secured liabilities and assets pledged as securities as of December 31, 2022 and 2021.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of the end of the reporting periods.



## 24. **SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE**

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under Revenue Regulations (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

### 24.1 *Requirements Under RR No. 15-2010*

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding page.

#### (a) *Gross Receipts Tax*

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

For the year ended December 31, 2022, the Bank paid gross receipts tax (GRT) as follows:

	<u>Tax Base</u>	<u>GRT</u>
Receipts subject to 7%	P 8,290,593	P 580,342
Receipts subject to 5%	61,613,328	3,080,666
Receipts subject to 5%	<u>2,286,806</u>	<u>22,868</u>
	<b><u>P 72,190,727</u></b>	<b><u>P 3,683,876</u></b>

The tax is levied on the Bank's lending income which includes interest, commission and discounts arising from instruments with maturities of more than five years and five years or less. The amount of GRT paid is presented as part of the Taxes and Licenses account in the 2022 statement of comprehensive income.

(b) *Documentary Stamp Tax*

The composition of the documentary stamp tax (DST) paid and accrued by the Bank for the year ended December 31, 2022 follows:

Deposit accounts	P	2,054,117
Loan instruments		998,632
Manager's checks		<u>4,259</u>
	<b>P</b>	<b><u>3,057,008</u></b>

The DST on deposit accounts and manager's checks are presented as part of the Taxes and Licenses account in the 2022 statement of comprehensive income.

On the other hand, the DST on loan instruments is passed on to the Bank's borrowers, thus, enabling the Bank to recover the prepayment made for these taxes.

(c) *Taxes and Licenses*

The details of the Taxes and Licenses account paid and accrued for the year ended December 31, 2022 follow:

GRT	P	3,683,876
DST		2,058,376
Fringe benefit tax		9,871
Miscellaneous		<u>367,052</u>
	<b>P</b>	<b><u>6,119,175</u></b>

Taxes and licenses are presented under the Other Operating Expenses account in the 2022 statement of comprehensive income.

b) *Withholding Tax*

The details of the total withholding taxes for the year ended December 31, 2022 are shown below.

Compensation and benefits	P	2,645,926
Final		858,500
Expanded		<u>551,376</u>
	<b>P</b>	<b><u>4,055,802</u></b>

c) *Value-added Tax, Excise Tax and Customs' Duties and Tariff Fees Paid*

The Bank is not subject to value-added tax (input and output) and excise tax due to the nature of its business. Moreover, the Bank did not pay any customs' duties and tariff fees as it did not import any goods or services for the year ended December 31, 2022.

d) *Deficiency Tax Assessment and Tax Cases*

As of December 31, 2022, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

**24.2 Requirements Under RR No. 34-2020**

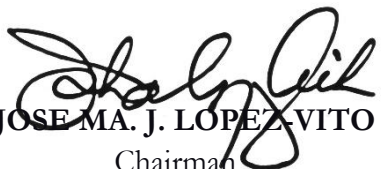
RR 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Bank is not covered by these requirements as the Bank did not fall in any of the categories identified under Section 2 of RR No. 34-2020.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Isla Bank (A Thrift Bank), Inc.**, is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process. The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

**Punongbayan & Araullo**, the independent auditors appointed by the stockholders, has audited the financial statements of **Isla Bank (A Thrift Bank), Inc.** in accordance with Philippine Standards on Auditing, and in their report to the Board of Directors and stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
**JOSE MA. J. LOPEZ-VITO III**  
Chairman

  
**EDUARDO V. LIM**  
President

  
**VIOLETA G. ANGELES**  
Comptroller

## PRODUCTS AND SERVICES

### Deposit Products

**Current Accounts** - a non-interest-bearing deposit subject to withdrawal by checks.

**Savings Accounts** - An interest-bearing deposit evidenced by a passbook.

**Special Savings Accounts** - Saving Deposit with specific maturity date earning interest at a rate higher than regular savings deposits based on the minimum deposit set by the bank, evidenced by a passbook.

**Time Deposit** - An interest-bearing deposit with specific maturity date earning interest higher than regular savings deposits, evidenced by a certificate of time deposits (CTD.)

**Automated Savings Account (ATM)** - a savings deposit earning an interest with electronic banking services as follows:

**Balance Inquiry**

**Cash Withdrawal**

**Bills Payment**

**Fund Transfer**

**Prepaid Load**

**Credit Card Cash Advance**

**Statement Request**

**Checkbook Reorder**

**Point of Sale (POS)**

**InstaPay** - is an electronic fund transfer (EFT) service that allows customers to transfer PHP funds almost instantly between accounts of participating banks and non-bank e-money issuers in the Philippines.

### Loan Products

#### **Personal Loans**

Are multipurpose loans to individuals that can be used for one's personal needs.

#### **Corporate Loans**

Are loans for the business or for the company's use such as but not limited to working capital requirements or purchase of capital assets.

#### **Consumer Loans**

Are loans for the purpose of purchasing a car or a home.

#### **Agricultural Loans**

Are loans extended to the agricultural sector, like corporate loan which can be used for working capital requirements or purchase of equipment for agricultural use.

### Others

#### **Safe Deposit Box**

Rental of boxes exclusively for the Bank's accountholders to safekeep important documents and other valuables

## **BRANCH DIRECTORY**

### **MAIN BRANCH**

Glass Tower  
115 C. Palanca Jr Street  
Legaspi Village, Makati City  
Tel Nos. (02) 8840-4020/8840-4019  
FAX# (02) 8840-4020

### **ILOILO BRANCH**

Plaza Jaro  
Jaro, Iloilo City  
Tel Nos. (033) 329-0730/329-4019  
FAX No. (033) 329-0730

### **BACOLOD BRANCH**

R.S. Building  
Hilado Street  
Bacolod City  
Tel Nos. (034) 433-6888/433-6333  
FAX No. (034) 434-4960

**Website :**

**[www.islabank.com](http://www.islabank.com)**