PACiFiC ACE
SAVINGS BANK

ANNUAL REPORT
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The Garden by Pacific Ace,
Rizal Highway, Subic Bay
Freeport Zone, Olongapo City,
Zambales, Philippines 2222

PACIFIC ACE SAVINGS BANK

WHAT WE STAND FOR

MISSION

We provide customers with equal access to quality financial services. We created an environment where every Filipino can enjoy and feel safe while managing their finances whether through our digital platforms or while being serviced by our accommodating staff in our green building.

VISION

We envision a sustainable community where everyone is empowered to make wise financial decisions while having equal access to safe, fast and affordable banking solutions.

OUR COMMITMENT

We are committed to serve both thriving business owners and low-income earners with fairness and equality. We see each person as a valuable human being who deserves to be given the opportunity to grow and prosper.

ABOUT THE BANK

For more than 20 years in the industry, Pacific Ace Savings Bank's main interest is to provide seamless value-added financial services to different types of customers, both locally and overseas. With our intention to transform the Filipino mindset from fully relying on daily wage, to becoming an entrepreneur and learning to save we believe that the future ahead of our customers are brighter and steady. As a financial institution, we provide quality and secured financial services, along with financial education.

With this intention, we treat our customers fairly and each of them has the potential to be among the main contributors in our nation building.

Who Are Our Target Customers?

1. Underserved and underprivileged individuals
2. Business-owners, employees and their children
3. OFWs in Hongkong & Macau, and their beneficiaries in the Philippines
4. Seafarers and their beneficiaries in the Philippines

What Can We Provide for the Community?

We offer deposit products with interest of "4x higher" than the other banks with minimal requirements. We meet our customers' trust with fast, friendly and reliable financial services where they can be at peace while managing their finances anytime and anywhere.

We also provide financial support in the form of business loans to promising local start-ups, even to those who cannot yet afford to provide collaterals or security. We streamline and simplify our loan process so that our customers can focus more on how they can improve their sources of income. To sustain the bank and protect customers' money, we ensure that these unsecured loans are mainly from shareholder's equity.

ABOUT THE BANK

Our History

In 1991, Pacific Ace started a “door-to-door money transfer services” business from OFWs in Hong Kong to their beneficiaries in the Philippines. Due to increasing demand and risks in traditional door-to-door remittance, the founder acquired a bank to simplify and secure money transfer transactions by means of Automated Teller Machine or ATM. Starting early 2000s, PASB was introduced to OFWs in Hongkong and Macau as a partner in their remittance services, along with the deposit and loans services offered to Olongapo residents.

Fast forward, as the bank began to have presence in the community, we transformed our head office in Subic into a garden bank in 2018. The bank then started to offer microfinance loans and business savings account for underserved and underprivileged individuals, hence the birth of our “Action Group Against Poverty” (AGAP) project, where any customer can be a micro-entrepreneur.

During the pandemic in 2020 when customers had limited face-to-face access, we developed our first ever mobile application for Android and iOS users, with check balance and view transaction history functions. The main intentions of this mobile application is to help customers check their balance and monitor their account without having to physically visit the bank premises or any ATM.

With the continuous demand in digitalizing the banking services in the Philippines, we started to align the bank by developing a robust and more advanced mobile banking technology where our customers will be able to open an account and transact online via Instapay and PESONet. We are targeting for this to be launched by end of 2023 to early 2024.

BUSINESS MODEL

Pacific Ace Savings Bank has been transitioning from an OFW-centric Bank, to a Community Bank, and now to a green and digital bank based in Subic.

PASB has been mainly serving our OFWs in Hongkong and Macau and their beneficiaries in the Philippines. In 2018, we shifted our business perspective, diversified, and also gave focus to local customers in Olongapo, Zambales and Bataan.

With an effort to create a dedicated business unit intended to educate and finance small start-up businesses for the poor, underserved and underprivileged members of the community, as well as individuals who cannot afford to borrow money in the bank due to lack of collaterals and tedious requirements, PASB has now transformed into a community bank.

As the demand to digitalize the banking services arose during the height of the COVID-19 pandemic, PASB shifted its goals and strategies in order to connect to the local community with the help of technology. Hence, our mobile application was developed for the convenience of our customers everytime they check their account balances and monitor transactions online.

We want our customers to have safe, easy, affordable and convenient access to financial services, regardless of their social status. With this innovation, we aim to provide our customers an advanced mobile banking experience where they can create deposit and electronic money accounts, transfer funds both internally and via Instapay and PESONet, pay bills, buy load, transact via QR Ph – P2P/P2M, apply loan, inquire loan ledger, talk to customer service and many other services that soon will be launched to expand customer reach nationwide.

With this, PASB's direction is not just to support OFWs (and their beneficiaries) and local customers in Zambales and Bataan. Through modern technology and our remarkably unique over-the-counter experience inside our green bank, we can promote advanced and enjoyable customer banking experience in the entire Philippines.

CHAIRMAN'S MESSAGE

PACIFIC ACE SAVINGS BANK

Dear Clients, Partners, and the Public,

I am pleased to present to you the 2022 annual report of Pacific Ace Savings Bank, where we reflect on our achievements, outline our strategic direction, and share our goals and policies as we continue to serve our valued customers and contribute to the growth and development of our communities.

At Pacific Ace Savings Bank, we have always strived to provide seamless value-added financial services to individuals and businesses, both locally and overseas. Our mission remains focused on transforming the Filipino mindset from spendthrift to business ownership and, ultimately, to become savers. By doing so, we believe that we can create a brighter and more stable future for our customers, who are the main contributors to nation-building.

As we move forward, our vision is clear - we envision a sustainable community where everyone owns a savings account and has equal access to fast, safe, and affordable digital platforms for making wise financial decisions. To achieve this vision, we are committed to delivering equal and fair treatment to all our customers, regardless of their business size or income level. We see each individual as a valuable human being deserving of quality, fast, and friendly financial services.

To ensure the highest standards of corporate governance, the board of directors takes its fiduciary responsibility seriously and fosters the long-term success of the bank. We conduct ourselves with utmost honesty and integrity, placing the best interests of the bank, its shareholders, and other stakeholders at the forefront of our decision-making process.

CHAIRMAN'S MESSAGE

As part of our commitment to sustainability, we have integrated environmental and social risk management into our various policies and procedures. This includes credit risk management, operational risk management, corporate governance practices, internal audit, compliance, and the design of our products and services. We believe in responsible banking practices that promote the well-being of our customers, employees, and the environment.

In line with our commitment to sustainability, we have embarked on the "Greening the Bank'' project, which focuses on creating a green and environmentally friendly workplace. Through initiatives such as urban vegetable planting, hydroponics, and waste reduction projects like ecobricks and waste segregation, we strive to minimize our ecological footprint and create a positive impact on the environment.

We also recognize the importance of employee well-being and development. We provide training and seminars to our employees, equipping them with the knowledge and skills necessary to serve our customers effectively and contribute to the bank's success. We believe that by investing in our employees, we create a positive work environment and foster a culture of continuous learning and growth.

Looking ahead, we are committed to embracing digitalization and advancing our technological capabilities. We are developing robust and advanced technologies that will allow customers to open accounts and transact online, providing greater convenience and accessibility. This includes the launch of our mobile banking application, which empowers customers to manage their finances anytime and anywhere.

CHAIRMAN'S MESSAGE

PACIFIC ACE SAVINGS BANK

In conclusion, Pacific Ace Savings Bank is steadfast in its commitment to delivering quality and safe financial services, promoting financial education, and contributing to the sustainable development of our communities. We extend our gratitude to our valued clients, partners, and the public for their continued trust and support.

Together, let us build a brighter and more sustainable future.

Sincerely,

Verona Joy S. Dio
Chairman, Pacific Ace Savings Bank

PRESIDENT'S MESSAGE

Dear Clients, and Colleagues,

As we reflect on the past year, I am pleased to share with you the short-term and long-term goals of Pacific Ace Savings Bank, our achievements, challenges, and our commitment to financial stability and growth.

In 2022, Pacific Ace Savings Bank embarked on an ambitious journey to further strengthen our position as a trusted financial institution. Our short-term goal was to enhance our digital platforms and services, providing our customers with faster, more secure, and user-friendly banking experiences. I am proud to announce that we will soon successfully launch V2 of our mobile banking application, empowering our customers with the convenience and flexibility to manage their finances on the go. This milestone will bring us closer to achieving our long-term vision of a sustainable community where everyone has equal access to fast, safe, and affordable digital platforms for making wise financial decisions.

Despite the challenges posed by the ever-changing banking landscape, we have successfully navigated through them, thanks to the unwavering dedication and commitment of our employees. Our day-to-day operations have been marked by efficiency, innovation, and a customer-centric approach. We have focused on providing exceptional service to our clients, whether they are business owners or low-income earners, ensuring that each individual is treated fairly and equitably. Our workplace culture has fostered collaboration, creativity, and continuous learning, enabling us to adapt swiftly to the evolving needs of our customers.

PRESIDENT'S MESSAGE

In terms of our financial performance, I am pleased to report that Pacific Ace Savings Bank has remained strong and resilient. Our prudent risk management practices, combined with our diversified portfolio, have enabled us to mitigate risks effectively. The bank's sound financial position is a testament to our commitment to responsible banking and the long-term sustainability of our operations.

I would also like to take this opportunity to highlight the significant role that our budget played in supporting our strategic initiatives. We allocated resources to key areas such as technology advancement, employee training and development, and customer experience enhancement. These investments have yielded positive results and positioned us well for future growth. We are proud to have maintained financial discipline while making strategic investments that drive our competitiveness and enhance the value we deliver to our stakeholders.

Looking ahead, we remain committed to our core values of family first, knowledge is power, confidence is gold, health is wealth, and unity. These values will continue to guide us as we pursue our mission of providing equal access to quality and safe financial services to all. We will continue to invest in our digital infrastructure, expand our product offerings, and deepen our customer relationships. We will also prioritize sustainable practices and environmental stewardship, ensuring that our operations have a positive impact on the communities we serve.

PRESIDENT'S MESSAGE

In conclusion, I would like to express my deepest gratitude to our shareholders for their unwavering support, our clients for their trust and loyalty, and our dedicated employees for their hard work and commitment. Together, we have achieved significant milestones and overcome challenges, strengthening our position in the market. As we embark on the next chapter of our journey, I am confident that Pacific Ace Savings Bank will continue to be a trusted partner for our customers' financial needs.

Thank you.

Sincerely,

Virginia S. Dio
President, Pacific Ace Savings Bank

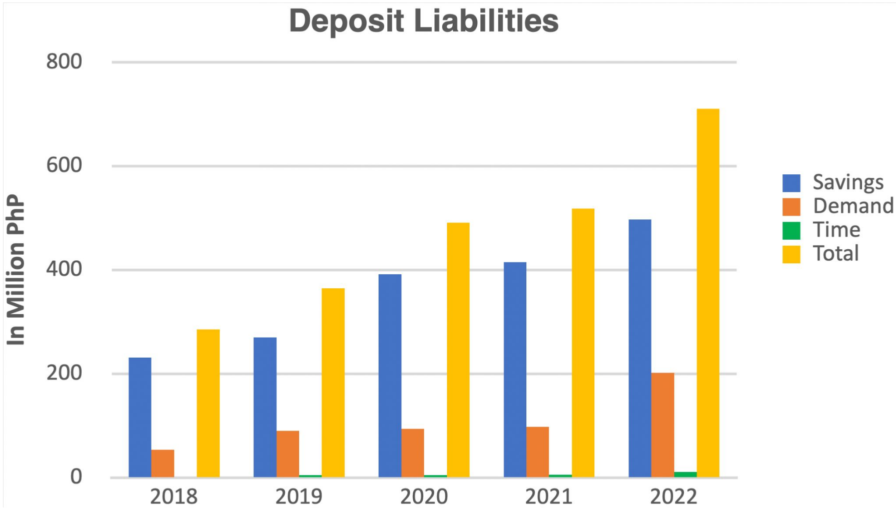
MILESTONES

Operational Highlights

PASB's direction: "From Traditional to Digitized Banking"

We care about our customers. Hence, our goals are to improve customers experience and expand our presence nationwide thru our Mobile Banking application.

During the height of the COVID-19 pandemic, PASB started developing its core banking systems to minimize clerical works, along with continuous training of our personnel on technical know-how and banking practices so we can focus more on reaching out to our customers. We already introduced our Mobile Banking application to perform check balance and view transaction history of customer's deposit accounts.



As a result, we increased our customer count by 11% since 2020. To date, PASB is serving 21,216 depositors, 30,249 e-money holders and 1,871 borrowers with only one branch in Subic Bay.

We maintain our focus on retail banking as we serve 99.8% of total depositors who are individuals contributing 70% of the total deposits.

MILESTONES

Operational Highlights

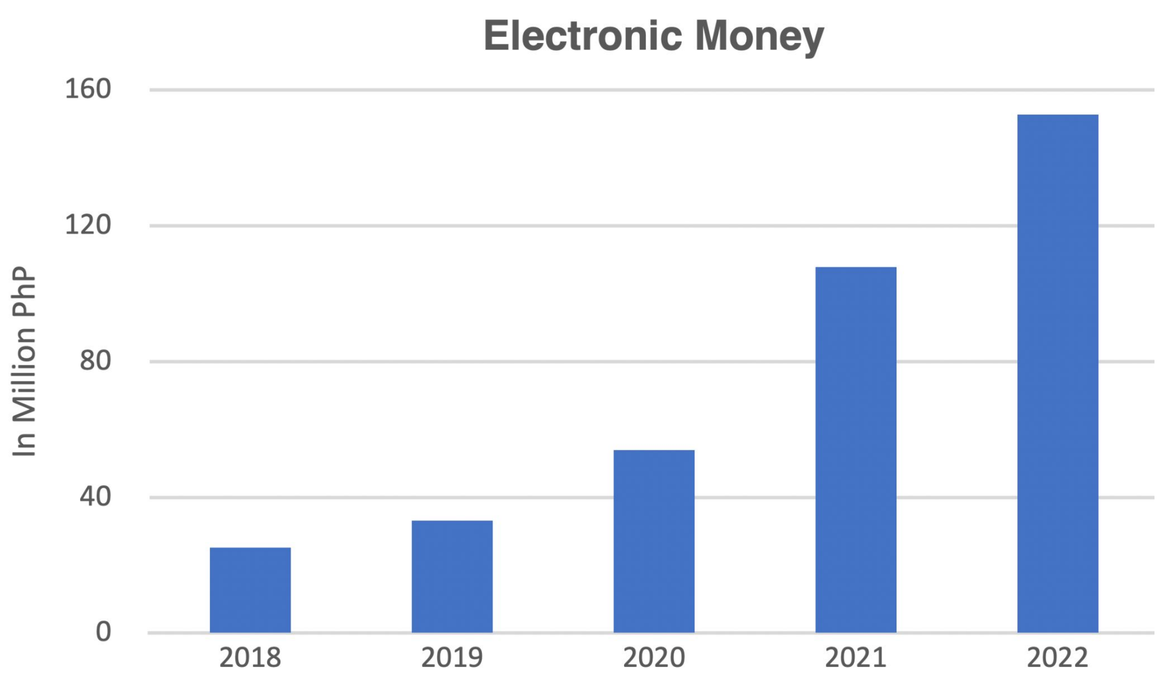
Our retail banking customers are mostly employed and business-owners who have stable sources of income. With this promising increase which is in proportion with the growing size of the bank, we aimed at expanding our reach thru Mobile banking application, which will the ease of doing transactions for our customers.

Two main reasons of deposit increase are the following:

1. High interest rates
2. Consistent savings

Regardless of the cost of deposit operations such as interests, service charges and deposit insurance, PASB managed to encourage its customers to choose to save money instead of spending it.

The Family Cash Card or FCC is an electronic money product being offered to OFWs abroad and their beneficiaries here in the Philippines. Currently, PASB serves 20,084 OFWs in Hongkong and Macau, and 10,165 beneficiaries in the Philippines.



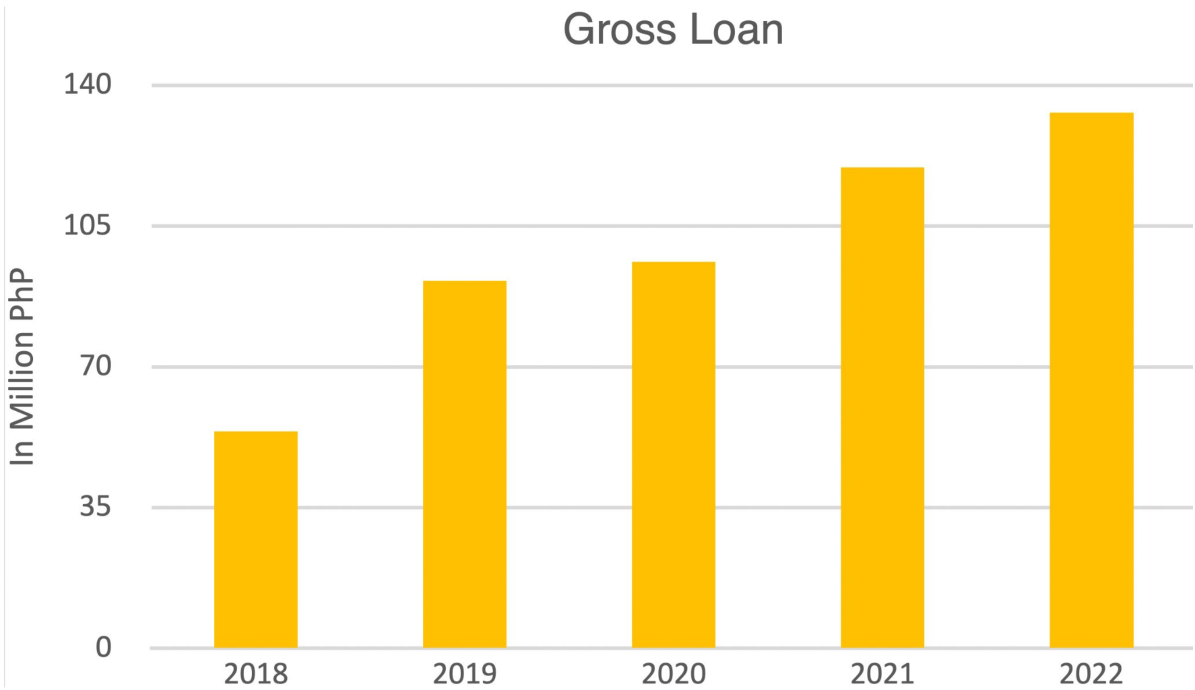
MILESTONES

Operational Highlights

We are aiming to move our customers' traditional remittance transactions using ATM cards to Mobile banking application. We are also working on simplifying the account opening process for OFWs and their beneficiaries thru electronic Know-Your-Customer (e-KYC). With this direction, we expect to double the account creation and transactions of both deposit and e-money.

As a community bank, we do not just see figures, we serve customers regardless of deposit size and strive to meet their financial needs as we help them create better financial decisions.

Along the process, we are also gradually increasing our loan portfolio.



MILESTONES

Financial Highlights

A.	Profitability	2022	2021
1	Total Net Interest Income	Php 28,224,170	Php 19,397,191
2	Total Non-Interest Income	20,034,068	18,165,069
3	Total Non-Interest Expense	(27,443,795)	(22,938,064)
4	Pre-Provision Profit	20,814,443	14,624,196
5	Allowance for Credit Losses	(9,888,028)	(2,264,211)
6	Net Income	10,926,415	12,359,985

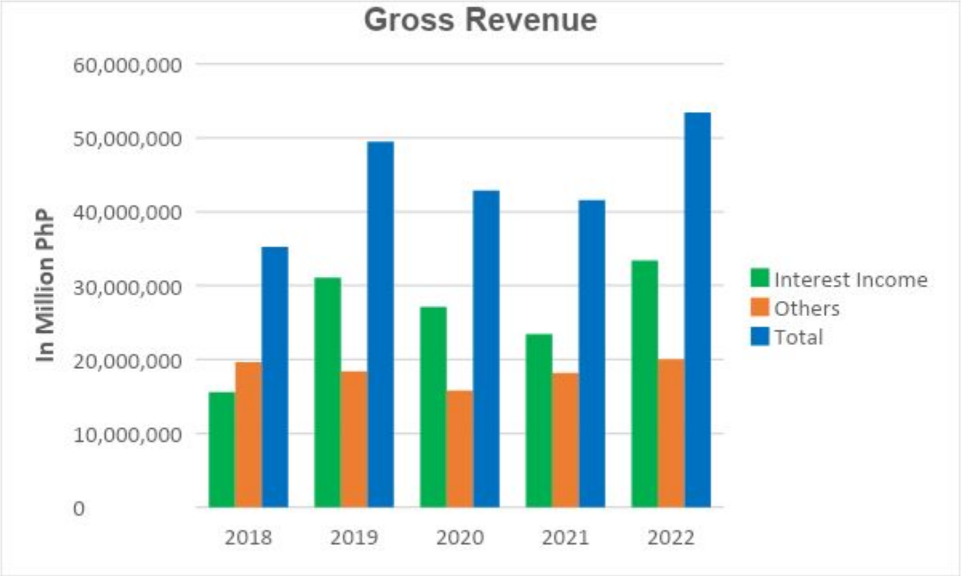
B.	Selected Balance Sheet Data	2022	2021
1	Liquid Assets	Php 799,916,668	Php 562,305,815
2	Gross Loans	133,264,179.00	119,645,449
3	Total Assets	989,994,823	743,736,549
4	Deposits	710,067,963	517,947,139
5	Total Equity	120,985,592	110,059,177

C.	Selected Ratio	2022	2021
1	Return on Equity	9.42%	11.90%
2	Return on Assets	1.14%	1.77%
3	Capital Adequacy Ratio	53.30%	43.03%
4	Earnings per Share	Php 16.04	Php 18.15
5	Book Value per Share	Php 177.61	Php 161.57

D.	Head Count	2022	2021
1	Officer	11	11
2	Rank and File	17	15

MILESTONES

Financial Highlights



Interest income makes 70% of gross revenue, where 63% is coming from interest on loans, 34% from BSP treasury and 3% from investments.

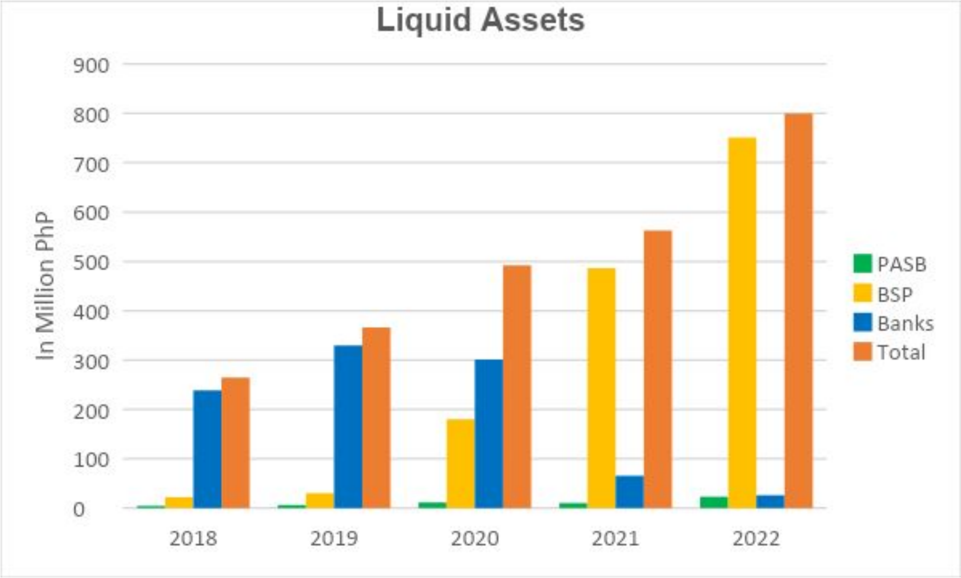
The remaining 30% of gross revenue is earned from service charges on loans, deposits and ATM transactions.

Net income is stable for the past 5 years with an average of Php 10 million.

MILESTONES

Financial Highlights

Liquid assets such as cash in PASB, due from BSP and due from other banks make 90% of total assets. The increasing trend in total assets is due to increasing deposits.



The remaining 10% is allocated in loans, investments, fixed assets and other assets.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

A.	**Tier 1 Capital**	
1	Paid up common stock	68,117,500
2	Retained earnings	41,941,677
3	Undivided profits	10,926,415
	Total Tier 1 Capital	**120,985,592**
B.	**Tier 2 Capital**	
1	General Loan Loss Provision	442,437
	Total Tier 2 Capital	**442,437**
C.	**Qualifying Capital**	
1	Tier 1 Capital	120,985,592
2	Tier 2 Capital	442,437
	Total Qualifying Capital	**121,428,029**
D.	**Risk Weighted Assets**	
1	Capital Requirements for Credit Risk	166,665,756
2	Capital Requirements for Market Risk	0
3	Capital Requirements for Operational Risk	61,136,384
	Total Risk Weighted Assets	**227,802,140**
E.	**TOTAL AND TIER 1 CAPITAL ADEQUACY RATIO**	**53.30%**

MAJOR ACTIVITIES

1. Mobile Application Expansion

Online fund transfer and bills payment has become the new normal to many Filipinos nowadays. Despite our frontliners' fervent reminders and prompts for our customers to deposit to their savings account, invest and avail of microfinancing at our bank, majority of our customers still prefer to transact online.

With the increasing cost of living in the Philippines and the struggles of many to find a job or re-open their businesses, we offered higher interest rates to our depositors to give them more incentives to continue saving despite the ongoing difficulties.

To systematize this, we partnered with a mobile application developer in creating an advanced and user-friendly mobile banking application that can provide most of the online banking services that other big banks can offer.

2. Instapay Participation

In 2022, PASB has successfully connected to the Automated Clearing House (ACH) to do interbank fund transfer up to Php50,000 per transaction and bills payment to billers/merchants.

The development has undergone series of testing to ensure the safety and security of the system and its compliance of the bank with the minimum requirements of the Bangko Sentral ng Pilipinas and BancNet.

STRATEGIC INITIATIVES

1. Greening the Bank ("Renovation of Head Office")

We dreamt of building a green bank right at the center of the business district in Subic Bay that will complement the environmental giftedness of our locality, as it is surrounded by both mountains and seas. We want our bank to be a center of environmental and health awareness for all of us as human beings who ought to preserve and protect our planet.

Hence, we invested in rebuilding our bank that makes it the fulfillment of our dream and goals in itself. As we continue to enhance its landscapes and labor force, we also believe that its architecture and design create a positive impact to the community, particularly to the unserved and unbanked as they get attracted to come in and enjoy their visit inside the bank.

STRATEGIC INITIATIVES

2. Mobile Banking Development

From our simple Mobile banking application that shows account balance and transaction history our customers, we are now developing a totally new Mobile banking app with new user-interface and functionalities, but safe and secured transactions and information.

3. Internal System Development

We continually enhance our internal systems particularly the core-banking systems to ensure that most of the transactions are automated with limited human-intervention. This also limits unauthorized access and modification of information and transactions, as supported by approved request slips. Part of the intention is also to automate report-generation so that employees can focus more in serving our customers.

CHALLENGES

Loan Operations

With the minimal marketing and advertisements, our challenge in credit operations is how we are able to reach more customers in Olongapo, Zambales and Bataan.

As of December 31, 2022, 97% of borrowers or 19% of total loan portfolio was unsecured, 19% was provisioned and 43% was overdue. With this performance in loan operations, along with the number of employees dedicated to serve borrowers, we limit our loan releases up to the extent of the size of our shareholder's equity until we are ready to serve more customers without hurting our budget and loanable funds.

To determine the strategies in sustaining our credit operations, we highlight both internal and external factors affecting our loan performance.

Internal Factors

1. Our target borrowers and AGAP members who are unsecured felt challenged in complying with tedious loan requirements for small loanable amount.

2. To meet the needs of our customers and minimize operational cost on a tedious loan cycle, we streamlined our loan process and requirements. Hence, we encounter challenges in proper due diligence specially in credit-underwriting and complete documentation.

3. The bank does not have existing and dedicated loan marketing officers to relieve our limited number of loan staff who are primarily focused on loan processing, credit investigation and collection. Hence, we felt short on getting more customers.

OPPORTUNITIES

External Factors

1. Since the start of COVID-19 pandemic, most of the businesses and other sources of income of our borrowers have been tremendously affected. Hence, credit-underwriting, as well as collections are affected.

2. Prices are one of the considerations why most loan applicants are unable to get an approval due to insufficient net income to support their loan amortization. Same with existing borrowers who were qualified in their loan but suddenly became unable to settle their amortization due to sudden increase of cost of living while source of income is the same or might be decreasing.

Opportunities and Response

Mobile Banking and Enhanced Website

We maximize the opportunity of digitizing our banking services to improve our customer experience and to grow the number of our customers we serve.

Albeit we are a highly liquid bank, we want to utilize this Mobile application to let most of our customers and prospective customers know about our bank.

We are re-developing our website as well that will be linked to our Mobile application to help customers know more about what we offer to the public.

Mobile Banking Initiatives are discussed in the other sections of this annual report.

OUR DEPOSIT PRODUCTS

Savings, Checking, eMoney & more

SAVINGS
Special Savings
WOW Savings Account (With special interest rate)
Regular Savings
Dream Savers (Above 12 years old)
Coolkids Savings (Kids Up to 12 year old)
AGAP Savings (AGAP members)
Automatic Transfer Account
ASENSO SA (Loan Clients)
ATM Payroll
Sikap (For Employees)

OUR DEPOSIT PRODUCTS

Savings, Checking, eMoney & more

CHECKING

Nation Builder (Corporate Client)
Chequemate (Personal Account)
ASENSO CA (For Loan Clients PDC)

TIME DEPOSIT

Peso Time Deposit

eMONEY

Family Cash Card (OFW Remitter and Beneficiaries)

OUR SERVICES
Savings, Checking, eMoney & more

ATM SERVICES

As Acquirer - 3 ATM Terminals in Subic and Paranaque
As Issuer - more than 20,000 ATMs and 304,000 POS terminals nationwide

OUR LOAN PRODUCTS

Secured and Unsecured Loans

LOANS
NATION BUILDER (Secured Loan)
Agri Loan
Business Loan
Housing Loan
Consumer Loan
ASENSO LOAN (Unsecured Loan)
Agri Loan
Business Loan
Housing Loan
Consumer Loan
AGAP LOAN
Super Microfinance Loan

OUR DEPOSIT PRODUCTS

Savings, Checking, eMoney & more

DREAMSAVER
Savings Account

- Save for your dreams, goals and retirement
- Receive 4x interest more than any other bank at 1% interest per annum
- Only P800 to open

COOL KIDS
Savings Account

- Securing your kid's education
- Gift of saving for your children
- Only P400 to open

ASENSO
Savings and Checking Account

- Financial and Banking Inclusion
- Micro Entrepreneurs and Business Loans
- Pay and Save at the same time

NATION BUILDER
Corporate Checking Account

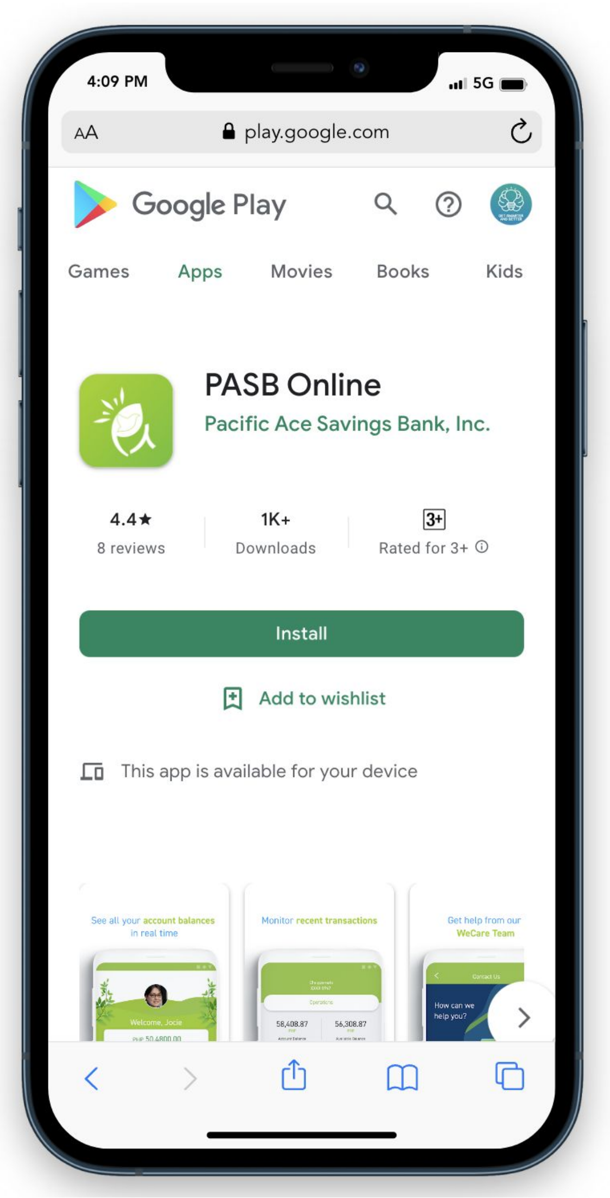
- Supporting employment
- Linked to SIKAP Payroll ATM Account
- Maintaining Balance only 10K

SIKAP
Payroll ATM Account

- Building your future
- Provide for your family
- Serving your financial needs

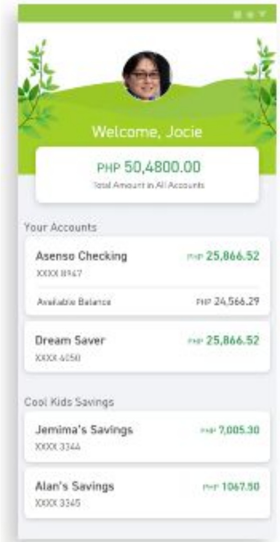
OUR MOBILE APPLICATION

From PASB Online to PABankOnline

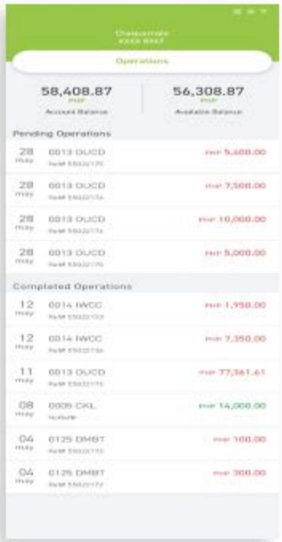


Find the download tutorial at
bit.ly/HowToDownloadPASBapp

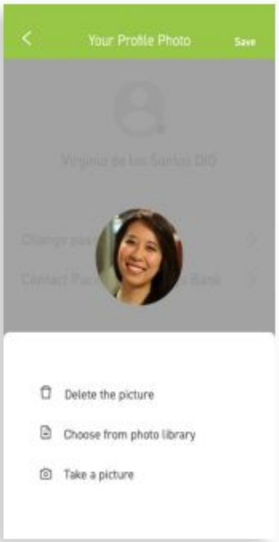
Display active account balances



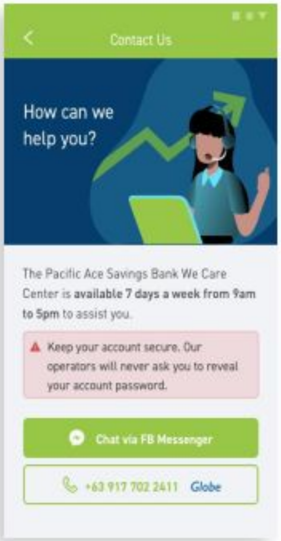
List most recent account transactions (last 200 transactions)



Take and change profile photo



Launch FB messenger and phone function



RISK MANAGEMENT FRAMEWORK

Risk Management Admin

Risk Management is created by the bank to ensure that all risk involves will be controlled and minimize. PASB has set a policies that covers the following:

1. Structure of limits and guidelines to govern risk-taking
2. Delineation of responsibilities of the following risk management defenses

1st Front Office
Deposits and Loans

2nd Back Office
Accounting

3rd Audit and
Compliance

1. System of measuring risk
2. Check and balance system
3. Risk data aggregation and risk reporting

PASB identifies and assesses risks to identify corrective measures to prevent negative effects to the operations and business objectives.

Definition of Risk

1. Risk is the possibility of a loss. In all its transactions, a bank faces risks related to deposits, loans, systems and people.
2. Risk is an uncertainty of whether events expected or otherwise will have an adverse impact on the bank's capital.
3. Risk can be controlled by having a sound risk management system.

Types of Risks in the bank

Credit risk

By definition, credit risk arises from a borrower's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities where success depends on borrower's performance. The bank's credit risk is usually arising from the loan portfolio.

RISK MANAGEMENT FRAMEWORK

Risk Management Admin

Our credit concentration is too high for unsecured and microfinance borrowers. To manage the risk, we only utilize shareholder's equity for loan operations. We protect funds coming from our depositors and electronic money holders from credit risks while we are still strengthening our loans department to reach more qualified borrowers within the community.

Despite of high risk on unsecured and microfinance, we stay committed to serve borrowers under this category by streamlining our process and requirements. Due to increasing credit risk, the Management is responsible for the approval of borrowers. Borrowers who do not qualify on certain requirement or condition may still avail a loan supported by acceptable justification and Management approval.

As of December 31, 2022, our past due ratio (PDR) of 43% but loan-to-deposit ratio (LDR) is 19%.

Market risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of both on and off-balance sheet instruments, products, and transactions in the bank's overall portfolio. Market risk arises from market-making, dealing, or position-taking in instruments, structure or strategies the income from which are sensitive to movements in interest rate, foreign exchange rates, credit spreads and equities and commodities prices.

We have too low market risk since 90% of our total assets are in the form of liquid assets. Also, we do not have outstanding exposure under held to maturity financial assets as of December 31, 2022.

RISK MANAGEMENT FRAMEWORK

Risk Management Admin

Interest rate

Interest rate risk in the banking book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect banking book positions. IRRBB has three sub-types that relate to the level and structural characteristics of interest rates: (a) gap risk which arises from the term structure of banking book instruments, and describes the risk arising from the differences in timing of instruments' rate changes; (b) basis risk that describes the impact of relative changes in interest rates for financial instruments that have similar re-pricing tenors but are priced using different interest rate indices; and (c) option risk which arises from option positions or from options embedded in a bank's assets, liabilities and/or off-balance sheet items that alter the level and timing of their cash flows.

The time deposit placements are based on the competitive market. Most of our liquid assets are placed to short-term time deposits of the BSP under treasury department. Since we are highly liquid assets, the earnings depend on the average level of interest rates being offered by the BSP and other banks. We do not have control on the increase or decrease of the interest rates, but we can manage to limit the amount to be placed and the term whenever the interest rates do not meet the Management's income target. Hence, long-term investments might come into the picture.

Liquidity risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

We have too low liquidity risk since 100% of deposit liabilities and e-money balances are safely kept with the BSP and is not being used for long-term investments and lending operations.

Operational risk

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

People and information risks are the main issues to be monitored. Personnel are susceptible for fraud or error which may impact the financials of the bank. Information technology may also bring financial loss to the bank if the security is breached. IT Risk as defined on BSP Circular No. 808 as any potential adverse outcome, damage, loss, violation, failure, or disruption associated with the use or reliance on the computer, hardware, software, devices, system, application, and networks.

To minimize such risk, we develop a robust and secured internal systems to limit human errors by automating most of the clerical works and ensure that the data stored in the core banking system cannot be compromised.

Risk Management Admin

In the past, operational risk involves previous staff dishonesty resulted to various legal and labor cases. We limit such instances by strengthening our recruitment, internal control and performance assessments to ensure that our employees will not engage in dishonesty, connivance and fraud, as well as unproductivity during work hours so that we can achieve our business goals and objectives.

Compliance risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank's products or activities of the bank's clients may be ambiguous or untested. This risk exposes the bank to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability.

The Management supports the compliance unit in implementing and monitoring compliance within the bank. We automate our compliance system particularly with the preparation of government reports for accurate and timely submissions. We also allocate budget for continuous development and training plan for Management, officers and staff in ensuring that our manpower is equipped with banking laws, rules and regulations, as well as adhering to the policies.

Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

This risk is quite high in proper implementation of strategies. Variances might arise due to high plan or budget vis-à-vis actual performance and low performance due to both internal and external factors. To minimize, we set a conservative target based on the risk appetite of the bank, business model and response in the market.

Reputation risk

Reputation risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the bank to litigation, financial loss, or a decline in its customer base. In extreme cases, FIs that lose their reputation may suffer a run-on deposit. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

Our employees specially the "front-liners" are the face of the bank. Hence, misbehaviors and misrepresentations of employee may cause damage to the bank's reputation. Our culture is to treat customers in utmost priority and with welcoming spirit.

With the green building in Subic, we maintain a low reputation risk. However, one of the challenges we experience is how we attract local customers to come and visit the bank specially the unbanked and unserved individuals without marketing cost.

Environmental and Social Risk

Environmental and Social Risk refers to potential financial, legal and/or reputational negative effect of environmental and social issues on the bank. These issues include environmental pollution, climate risk (both physical and transition risks), hazards to human health, safety and security, and threats to commodity, biodiversity and cultural heritage, among others.

Since 2018, our focus is connected to the E&S risk management by greening the bank and improving the well-being of our personnel. From literally greening the bank, we also avoid customers and partners with business that may harm the environment.

Risk Management Administration

Risk management process is incorporated in the bank management system and all levels of operations/units involved. The respective department heads are risk owners and are responsible in identifying risk at their levels by regular monitoring. To reduce such risks, Management focuses on improving operations and oversight function to ensure that while risks are decreasing, bank's operations are improving.

RISK MANAGEMENT FRAMEWORK

Risk Management Admin

Risk Management Objectives

1. Risk management aims to give and to create value to the bank's stakeholders.
2. Aside from ensuring high profits, risk management aims to optimize earnings potential. The bank does not want to mitigate risks alone, it also looking for business opportunities that will give a higher return from its operations.
3. Risk management aims to create an internal environment wherein employees have the awareness in assessing risks for institutional gain in every transaction.
4. Controlling risks aims to gain reputation from bank's stakeholders and regulators

Risk Appetite Statement

The Risk Appetite Statement represents the individual and aggregate level and types of risk that a bank is willing to assume in order to achieve its business objectives and considering its capability to manage risk. It includes both qualitative and quantitative measures expressed relative to earnings, capital, risk measures, liquidity, and other relevant measures as appropriate.

The following risk appetite statement is based on risk exceptions from Bangko Sentral ng Pilipinas, compliance, internal and external audit, as well as historical data that may help the bank minimize or control potential losses.

Credit Risk

- Loan portfolio shall utilize funds from equity first, and may use available funds from deposit but shall not exceed 20%.
- Bank shall not grant a loan to DOSRI, employees and to their families up to 2nd degree of affinity and consanguinity.
- Unsecured loans shall not exceed the bank's available funds from equity
- Single borrower's limit shall not exceed 20%
- Deposit to a single bank shall not exceed Php100 million.
- Bank shall not grant loans to businesses or loan purpose that may harm the environment.

Market Risk

- Long-term investments shall not exceed Php 100 million
- Liquid assets shall not be lower than 50% of assets.
- Unutilized liquid assets shall be used in income generating short-term deposits with the BSP.

Interest rate Risk

- Interest rates of assets shall not be lower than the average interest rates of other banks or the BSP.

RISK MANAGEMENT FRAMEWORK

Risk Appetite and Strategies

Liquidity Risk

- Liquidity ratio shall not be lower than 100%.
- At least 80% of average funds from deposits shall be with the BSP.
- At least 50% of average e-money balances shall be with the BSP.

Operational risk

- Loss not to exceed Php100,000 due to legal or labor case against employees
- Loss not to exceed Php500,000 due to information security breach

Compliance risk

- Penalties not to exceed Php 100,000 due to non-compliance

Strategic risk

- Loss in changes of strategies not more than Php100,000 for simple operations up to Php 1,000,000 for complex project like system developments or innovation.
- Negative variance shall not exceed 20% from the budget

Reputational risk

- Complaint resolution shall not be longer than 9 days

RISK MANAGEMENT FRAMEWORK

Risk Appetite and Strategies

Environmental and Social Risk

- Non-approval of loan to customers whose businesses can cause harm to the environment and human health
- Turnover rate of employees not more than 20%

The Management identified top (3) three weak risks present in the bank such as:

1. Credit risk due to weak credit underwriting resulting to high past due ratio and booked allowance for credit losses which eventually affects the bank's capital and earnings.
2. Market risk or earnings due to low returns on equity (ROE), return on assets (ROA), net interest margin and loan-to-deposit ratio (LDR);
3. Strategic risk due to weak monitoring and actions to resolve negative variances in achieving business objectives and strategies and weak documentation of actions taken by the Management.

RISK GOVERNANCE AND STRUCTURE

The Board of Directors is responsible for:

1. Approving strategies and policies;
2. Understanding the risks;
3. Ensuring that senior management takes necessary steps to identify, measure, monitor, and control the risks;
4. Approving organization structure; and
5. Ensuring that senior management is monitoring the continued effectiveness of the internal control system.

The board of directors discusses the risk management at least quarterly and monthly whenever there are unique risk exposures that need immediate resolution by the Management.

Board of Directors

Compliance
Monciar Elenzano

Internal Audit
Jove-Cale Dorado

Operations
Grace Lanza

Accounting
Aira Acosta

Duties and Responsibilities:

The board of directors is responsible for overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the bank. The board shall:

1. Oversee the risk management framework. The board shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

RISK GOVERNANCE AND STRUCTURE

2. Oversee adherence to risk appetite. The board shall ensure that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

3. Oversee the risk management function. The board shall be responsible for the appointment/selection, remuneration, and dismissal of the board members. It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the bank.

ANTI-MONEY LAUNDERING

Governance & Culture

Money Laundering and Terrorist Financing Program is adopted to support governments, law enforcement agencies and international bodies such as the Financial Action Task Force in their efforts to combat the use of the financial system for the laundering of the proceeds crime and terrorism.

To ensure that the risks associated with money-laundering such as counterparty, reputational, operational, and compliance risks are identified, assessed, monitored and mitigated, the following were adopted:

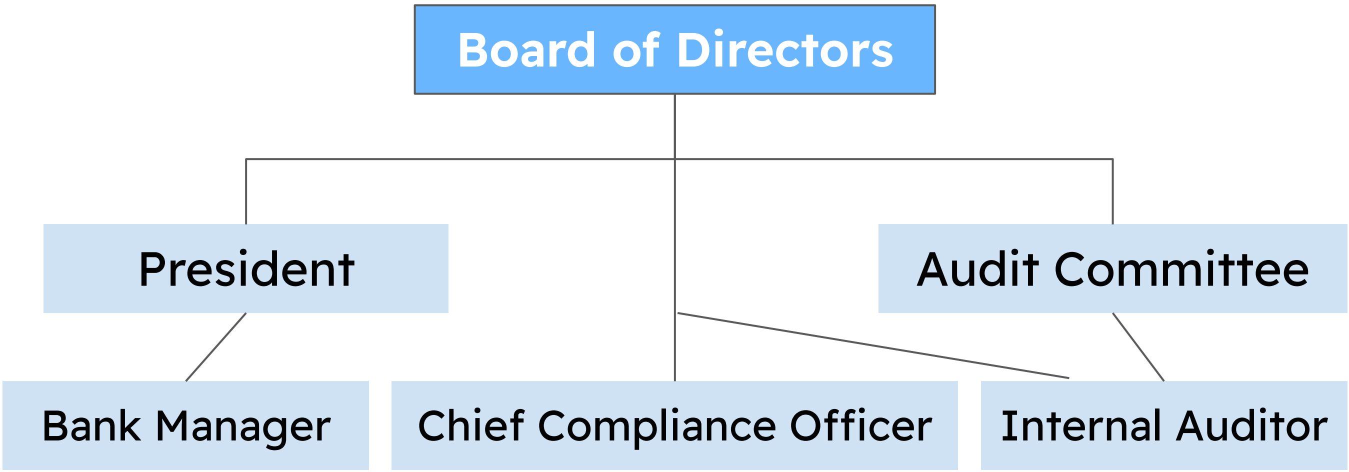
1. Board of Directors – The Board has the ultimate duties and responsibilities to ensure full compliance with money laundering and terrorist financing prevention program. As such, the board through the Compliance Office and Internal Audit regularly updated on the matters related to Anti-Money Laundering and terrorist financing compliance and risk management.

2. Compliance Office – Compliance is the main responsible for the management of the implementation of this Money Laundering and Terrorist Financing Prevention Program (MLPP) of the bank. This includes achieving the bank's goals through planning, organizing, leading, and controlling. Compliance office is independent and has direct access/reporting lines to board of directors. The compliance office conduct regular compliance checking covering the evaluation of AMLA process, policies and procedures in the customer identification and acceptance, reporting of Covered and Suspicious Transactions, and monitoring systems and record retention. Senior management and board of directors are consistently informed on the non-compliance of the Bank to money laundering and terrorist prevention program including management action to address deficiencies. Compliance Office shall Inform all responsible officers and employees of all issuances by the BSP and AMLC; alert the president, board of directors and audit committee if it believes that the bank is failing to appropriately address AMLA issues and organize the timing and content of AML training of officers and employees including regular refresher trainings.

3. President – In order to ensure consistent and full compliance with money laundering and terrorist financing prevention program, the President is also responsible to monitor the compliance of CASA department and other concerned units in Anti-Money Laundering and Terrorist Financing.

ANTI-MONEY LAUNDERING

Governance & Culture



We religiously comply to our "Know-Your-Customer" policy wherein we ensure customers' true identity are validated based on official and other reliable documents before accounts are opened or a business relationships are initiated. We are also required to risk profile our customers, perform the corresponding due diligence procedures, continuously monitor accounts, transaction history and report to the government as necessary.

Albeit the bank has low risk exposures with Anti-Money Laundering Act as it primarily serves the unbanked, underprivileged and below poverty line members of the local community in Olongapo, Zambales and Bataan, as well as the long-time Overseas Filipino Worker (OFW) customers in Hong Kong and Macau who are profiled as "Low risk customers", the Bank has observed strict compliance with AML to ensure that the Bank has no opportunity to be an avenue for money laundering and terrorist financing. The Bank retains 98% of the customers as low risk, while the remaining 2% are properly identified and continuously monitored.

Overall, AMLA risk management rating is relatively high considering the significant improvement and effort to maintain customer records and strengthened front-liners to conduct proper customer due diligence or "Know-Your-Customer". There is also a committed Compliance Officer to equip Bank employees, senior management and outsourced counterparties with AMLA updates necessary to combat money laundering and terrorist financing.

In compliance with BSP Circular No. 1022, 2018 implementing rules and regulations and AMLC Resolution No. 148, the Bank is digitizing all customer records and has updated the AML policies and procedures.

CORPORATE GOVERNANCE

Structure & Practices

The board of directors, management, employees, and shareholders have the big role to maintain sound strategic business management. The board of directors shall lead the bank to create awareness and observance of the principles of good corporate governance. It shall be the board's responsibility to foster the long-term success of the bank and assure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which shall exercise in the best interest of the bank, its shareholders, and other stakeholders. The board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

	Name	Position	Type of Directorship	Years served as director	No. of shares	%
1	Verona Joy S. Dio	Chairman	Non-executive	7 years	357,738	29.81%
2	Virginia S. Dio	Director/ President	Executive	22 years	480,000	40%
3	Roldan P. Escala	Director	Executive	8 years	10	0.00%
4	Maria Fatima P. Teng Gui	Independent Director	Non-executive	7 years	1	0.00%
5	Atty. Von F. Rodriguez	Independent Director	Non-executive	2 years	1	0.00%

CORPORATE GOVERNANCE

Selection Process

1. The board of directors is informed of the need to conduct selection/nomination at least three months before the position will be vacated or replaced.

2. Nomination will be forwarded to the HR personnel who then will forward to the board of directors.

3. Personal interview will be conducted by the Chairman and the President in whatever means either “face-to-face” or electronic interview.

4. The board of directors shall assign director to collaborate with HR personnel to document the qualifications or to conduct “fit and proper test”. Fit and Proper Test considers integrity, physical and mental fitness; relevant education, financial literally and trainings; knowledge and experience; skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities

5. The assigned director shall prepare reports and conduct deliberation based on the selection criteria as to who shall be the shortlist nominees.

6. Result of the deliberation shall be submitted to the board of directors for review and approval until the appointment is formalized in the next board meeting.

7. For appointed directors, officers with ranked SVP and up, compliance head and internal audit head, the compliance officer shall then comply with the submission of the request for confirmation of BSP, biographical data and other relevant documentation to prove the qualifications and none of the disqualifications to the Bangko Sentral ng Pilipinas within 20 banking days after appointment.

8. Appointed director shall attend the Corporate Governance Seminar to any accredited training provider of the BSP.

CORPORATE GOVERNANCE

Major Duties & Responsibilities

CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD OF DIRECTORS

1. Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors. The board reviews and evaluates the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors such as President and equivalent rank and heads of department. The board shall also discuss matters pertaining to the assignment to members of the board of directors and audit committee, as well as succession plan for the members of the board of directors and senior management.
2. Oversee the continuing education program for the board of directors. The board shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors. For this purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.
3. Oversee the performance evaluation process. The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.
4. Oversee the design and operation of the remuneration and other incentives policy. The committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of Bank, promotes good performance and conveys acceptable risk taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the BSFI’s risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and likelihood and timing of earnings. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

CORPORATE GOVERNANCE

Major Functions of the Board of Directors

The board of directors' primary goal is to maintain trust and confidence within the Bank. Directors shall act in a manner characterized by transparency, accountability and fairness. Directors are primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. They are also responsible in overseeing the performance of senior management in as far as managing the day to day affairs of the bank. The Board shall approve policies on all major business activities such as investments, loans, assets and liability management, trust, business plan and budget. Moreover, defining the Bank's level of risk tolerance and mechanism to monitor in such business activities shall form part of its responsibilities.

- Defines the corporate culture and values;
- Approves objectives and strategies and overseeing management's implementation
- Appoints and selects senior management, principal officers and remuneration and incentives of employees
- Approves and oversees implementation of the corporate governance framework;
- Approves and oversees the implementation of the risk governance framework

Chairperson

The Chairperson of the board of directors shall be a non-executive or independent director and shall provide leadership in the board of directors. She shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. Moreover, she shall:

- Ensure holding of regular Board meeting and relevant matters are covered;
- Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites and key governance concerns;
- Ensure a sound decision making process;
- Encourage and promote critical discussion;
- Ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensure that members of the board of directors receives accurate, timely, and relevant information;
- Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- Ensure conduct of performance evaluation of the board of directors at least once a year

CORPORATE GOVERNANCE

Major Functions of the Board of Directors

President

- Overall champion of bank's operations;
- Sets the tone of good governance from the top management;
- Oversees the day-to-day management of the bank;
- Ensures that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency;
- Promotes and strengthens check and balance system in the bank;
- Approves significant and material bank transactions

Regular and Independent* Director

- Remains fit and proper** for the position for the duration of his term;
- Conducts fair business transactions with the bank and to ensure that personal interest does not bias board decisions,
- Acts honestly and in good faith, with loyalty and in the best interest of the bank, its stockholders, and other stakeholders such as its depositors, investors, borrowers, other clients and general public;
- Devotes time and attention necessary to properly discharge their duties and responsibilities;
- Acts judiciously;
- Contributes significantly to the decision-making process of the board;
- Exercises independent judgment;
- Understands the statutory and regulatory requirements affecting the bank, including the content of its articles of incorporation and by-laws, the requirements of BSP and other regulatory agencies;
- Observes confidentiality

*may only serve as such for a maximum cumulative term of nine (9) years.
**this includes integrity/probity, physical/mental fitness, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, sufficiency of time to fully carry out responsibilities, and concurrent positions in the same bank and interlocking positions in other entities that may pose conflict of interest.

CORPORATE GOVERNANCE

Board Composition and Attendance

BOARD OF DIRECTORS					
No.	Board Members	Position	Meetings Attended	Total No. of Meetings	Rate of Attendance
1	Verona Joy S. Dio	Chairman	12	12	100%
2	Virginia S. Dio	Executive Director	12	12	100%
3	Roldan P. Escala	Executive Director	12	12	100%
4	Maria Fatima P. Teng Gui	Independent Director	12	12	100%
5	Atty. Von F. Fernandez	Independent Director	12	12	100%

AUDIT COMMITTEE					
No.	Board Members	Position	Meetings Attended	Total No. of Meetings	Rate of Attendance
1	Maria Fatima P. Teng Gui	Chairman	4	4	100%
2	Atty. Von F. Fernandez	Member	4	4	100%
3	Verona Joy S. Dio	Member	4	4	100%

CORPORATE GOVERNANCE

Qualifications of the Board of Directors

Our Directors	Their Qualifications and Experiences
Verona Joy S. Dio Chairman Filipino, 43 years old	Ms. Dio is appointed as a chairman of the board of directors since September 2017. She became a director of the bank since 2015. She completed the seminar on Corporate Governance, Risk Management, Credit Risk Management, AMLA, Supervisory Assessment Framework, SEC Updates and Retail Treasury Bonds. She finished her undergraduate degree at Columbia University in 2001 and post-graduate degree in economics at London School of Economics in 2003.
Virginia S. Dio Director Filipino, 73 years old	Mrs. Dio is a director since 2002. She assumed the position as chairman of the board of directors in 2002 to 2017. She is also the major stockholder of other Pacific Ace companies in the Philippines, Hongkong and Macau. Her expertise is primarily in managing Pacific Ace Group of Companies both in the Philippines and Hongkong. She is the founder of Pacific Ace Her Cause Foundation now Pacific Ace Subic Foundation, Inc. She attended seminars on Management, Corporate Planning, Thrift Banking Operations, Corporate Governance, AMLA, Customer Service, Supervisory Assessment Framework, Ethics and Etiquettes in Financial Market and Emergency Preparedness. She finished BS Commerce Major in Accounting at the University of the East.
Roldan P. Escala Director Filipino, 49 years old	Mr. Escala is a director since 2014. He is holding a concurrent position as manager at Pacific Ace Subic Bay Corporation, a sister company of the bank whose major business is subleasing of commercial spaces. He is a stockholder in Westdale Philippines, Inc. and Pacific Ace Subic Bay Corp. He attended trainings on corporate governance and risk management, AMLA, customer service for banking operations, disaster/emergency preparedness, bancnet and microfinance and fraud warning signs and controls. He finished BS Computer Science in San Sebastian College-Recolletos.

CORPORATE GOVERNANCE

Qualifications of the Board of Directors

Our Directors	Their Qualifications and Experiences
Maria Fatima P. Teng Gui Independent Director Filipino, 43 years old	Ms. Teng gui is a director and chairman of the audit committee since 2015. She is an owner of TG&P Ventures, TGP Gas Station and TG&P Business Ventures Inc, all are non-financial institutions. Her expertise is managing internal audit, controls and compliance. She attended corporate governance and risk management seminar and regular AMLA updates. She finished BA Public Administration at UP Diliman in 1999.
Atty. Von F. Rodriguez Independent Director Filipino, 49 years old	Atty. Rodriguez was appointed as independent director last November 2020. He previously worked at Subic Bay Metropolitan Authority from 2001 to 2017 specifically in Legal Department and Office of Administrator. He is concurrently practicing as director, corporate secretary, trustee and consultants of various companies within Subic Bay Freeport Zone. His expertise is more on managing legal risk issues, corporate governance, deposit and loans operations. He attended corporate governance, BSP supervisory assessment framework and AMLA training. He finished AB Economics at San Beda College in 1994 and Bachelor of Laws at Arellano University in 1999.

CORPORATE GOVERNANCE

Qualifications of Officers

Our Directors	Their Qualifications and Experiences
Virginia Dio President Filipino, 73 years old	Mrs. Dio has been President of Pacific Ace Savings Bank since 2002. In 1972, she founded the first company of Pacific Ace Group, which has since grown to a multinational organization implanted in the Philippines, Hong Kong and Macau. She brings close to 40 years of deep business knowledge and financial expertise, particularly in the industries of international remittance and microfinance serving Overseas Filipino Workers. She is a long time philanthropist for Philippine educational causes and founded Pacific Ace Her Cause Foundation, now renamed to Pacific Ace Subic Foundation, Inc. She completed a BS Commerce Major in Accounting at the University of the East. She has attended seminars in Management, Corporate Planning, Thrift Banking Operations, Corporate Governance, AMLA, Customer Service and Emergency Preparedness.
March Jefferson M. Fernandez Corporate Secretary Filipino, 38 years old	Atty. Fernandez has been Corporate Secretary of Pacific Ace Savings Bank since 2017. He is also a legal counsel of Pacific Ace Group of Companies in the Philippines after over 3 years experience as a legal associate in a law firm. He completed his Bachelor of Laws at San Beda College of Laws and BS Political Science at the University of the Philippines. As part of his ongoing training, he has seminars on Corporate Governance and AML Law. He is also a stockholder of Pacific Ace Recovery and Collection Inc. and PASB.

CORPORATE GOVERNANCE

Qualifications of Officers

Our Directors	Their Qualifications and Experiences
Roldan P. Escala Acting Treasurer Filipino, 49 years old	Mr. Escala has been the acting treasurer of Pacific Ace Savings Bank since 2015. He holds a concurrent position as manager at Pacific Ace Subic Bay Corporation, a subleasing property company located in Subic Bay Freeport Zone, an affiliate of Pacific Ace Savings Bank, Inc. He is a stockholder in Westdale Philippines, Inc., Pacific Ace Subic Bay Corp. and Pacific Ace Savings Bank.
Monciar P. Elenzano, CPA Chief Compliance Officer Filipino, 30 years old	Mr. Elenzano was appointed Chief Compliance Officer in 2017. He has 2 years experience as an internal auditor in a commercial bank and 1 year experience as an external auditor. He is an active member of the Association of Bank Compliance Officers since 2018. He completed his BS in Accountancy at Polytechnic University of the Philippines and is a Certified Public Accountant since 2014. He conducts in-house AMLA courses in Pacific Ace Savings Bank and attended seminars on Compliance Officer Development, Corporate Governance, AML Law, Train Law, SEC Updates among other related trainings.
Grace S. Lanza Chief Accountant Filipino, 34 years old	Ms. Lanza has 10 years experience as Chief Accountant and 1 year as an internal auditor in rural and thrift banking. She was appointed as Chief Accountant in PASB since 2017. She completed a BS in Accountancy at Mondriaan Aura College. She attended seminars in AML Law, SEC Updates, PhilPass, Accounting, IT and Internal Audit.
Fredie E. Ramos We Care Center Manager Filipino, 51 years old	Mr. Ramos is appointed as Head of We Care, the bank's customer service handling OFW concerns and PASB customer complaints and inquiries since 2018. He has 11 years experience as a service manager in the food industry. He completed a BS in Business Administration at Columban College Inc. He has attended seminars on Customer Service for Banking Operations, AML Law and Occupational Safety and Health Course.

CORPORATE GOVERNANCE

Performance Assessment Program

The board of directors approved an annual Performance Evaluation Program for its members, audit committee, officers and employees, as well as outsourced counterparties.

The performance evaluation aims to gauge the quality of its people and determine the compensation, rewards and benefits given to high performers. The bank also assesses outsourced third parties based on the delivery of the service in accordance with the contract agreement. Based on the assessment results, the Bank may gauge whether to continue engaging the services of its counterparty.

The goal is to ensure the bank's security by upholding the adequate performance of its people in maintaining a stable and sound fiduciary relationship with its stakeholders.

BASIS OF ASSESSMENT

Board of Directors

The Board of Directors shall be responsible for ensuring the bank's observance of the BSP Corporate Governance regulations. It shall evaluate the performance of its executive officers, members, and the audit committee. An annual self-assessment of its members shall utilize a performance rating code from 1 - 5 based on the following criteria:

1. How well has the Board accomplished its goal
2. How well has the Board conducted itself
3. Relationship with the Chairman of the Board
4. Feedback to the Chairman of the Board
5. Self-Assessment, viz:

    a. Performance of duties and responsibilities of board members
    b. Meeting attendance
    c. Reading and keeping minutes and meeting notices
    d. Familiarity in by-laws and bank policies
    e. Participation in the board meeting
    f. Confidentiality
    g. Conflict of interest

The Board shall decide whether each director has adequately carried out his or her duties using the evaluation criteria.

Performance Assessment Program

The results of the evaluation shall be the basis of the Board in recommending continuing education of directors and succession plan for the board members and senior officers. Self-evaluation shall be conducted annually and reported during the Annual Stockholders' Meeting in March.

Officers and Employees

Pacific Ace Savings Bank supports young and talented employees in building their careers as full fledged bankers. We create a culture where employees have opportunities for career advancement.

Performance evaluation is divided into 2 sections - self-evaluation and OIC performance appraisal report. Results of evaluation are forwarded to the Human Resource Department for discussion with the President and/or board of directors.

Self-evaluation consists of Productivity, Teamwork, Organization/Planning, Time Management, Problem Solving/Communications, Attendance and Basic Skills.

OIC Appraisal Report is based on the following criteria:

- Job Knowledge
- Communication
- Problem Solving
- Productivity
- Quality of Work
- Planning and Organization Effectiveness
- Teamwork
- Dependability
- Enthusiasm towards work challenges
- Creativity in concepts, creations and output
- Punctuality in work output and in attendance
- Involvement in crimes and losses of the company
- Teamwork and collaboration
- Values and respect to others
- Honesty
- Technical Skills

Findings from the internal audit and compliance will also contribute to the results of the performance evaluation of officers and employees.

Orientation & Education Program

Upon appointment of a new director, the Chairman ensures the orientation of duties and responsibilities as well as qualifications and grounds for disqualifications as previously mentioned.

First time directors must attend a Corporate Governance Seminar from qualified external training provider. Compliance and Internal Audit Head shall attend trainings and seminars on risk-based compliance and internal audit approach and other related external trainings. The Management shall allocate budget to provide key officers trainings and seminars relevant to their roles, duties and responsibilities.

The President determines the internal and external trainings to be provided for each employee. Officers holding sensitive positions such as compliance head, internal audit head, chief accountant, loans and AGAP officers and credit investigator are required to attend external trainings relevant to their duties and responsibilities. Approved in-house and external trainings are all paid by the bank.

In most cases, trainings are presented by the HR department and compliance office and the Management identifies and assigns employees who need to attend the training.

The Compliance Department shall conduct a regular annual orientation and AMLA updates with the officers and employees.

CORPORATE GOVERNANCE

Retirement Policy

Under Republic Act (RA) No. 7641, otherwise known as the Retirement Pay Law that took effect on January 17, 1993, the Bank is required to provide minimum retirement benefits to qualified retiring employees.

The Bank has not yet established a formal retirement plan for its regular employees. 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.

However, in the absence of a retirement plan or agreement providing for retirement benefits of employees upon reaching the age of 60 years or more, but not beyond 65 years, who has served at least 5 years, may retire and shall be entitled to retirement pay equivalent to at least ½ month salary for every year of service, a fraction of at least 6 months being considered as 1 whole year. The amount was determined based on the benefits accruing to qualified employees up to age 60 and amortized over the remaining working life of employees.

The bank does not set retirement limit for board of directors and president as long as senior officers remain qualified to perform their duties and responsibilities and passed the fit and proper test and minimum requirement in the board meeting attendance. The Management is also improving the retirement benefit program to encourage bank employees to stabilize their employment with the bank beyond five (5) years.

For the moment, no bank employees qualify for this benefit, except for the President who receives a minimal director fee for her service.

CORPORATE GOVERNANCE

Succession Policy

Independent directors may serve for a maximum cumulative term of (9) nine years. The Bank has adopted a succession plan in case of temporary and permanent absences of officers and employees holding critical positions to avoid interruptions of oversight functions and business operations.

As the bank expands its operations, the board of directors review the succession planning process. This plan shall address for vacancies brought about by expansion, promotion, retirement, among others.

This succession plan will prioritize existing employees when looking to fill the vacancy of a critical or officer position.

CORPORATE GOVERNANCE

Remuneration and Dividend Policy

REMUNERATION POLICY

Directors are only receiving minimal allowances. Officers and employees, except the President who is only receiving an allowance, are getting an industry-competitive compensation package with a regular appraisal depending on the performance, growth, skills and output during the year.

Material DOSRI transactions are controlled in the bank. The bank ensures that DOSRI do not take advantage on the bank's fund, unless the operation can cover the services rendered by its directors based on the decision-making process and resolution to expand its operations.

Budget shall be approved by the board of directors wherein directors concern is not involved in the decision-making process.

The bank's most highly compensated officers are Chief Compliance Officer, Chief Accountant and WCC Manager.

DIVIDEND POLICY

The amount of surplus funds available for dividend declaration is determined on the basis of regulatory net worth after considering certain adjustments.
The Bank's lead regulator, the BSP sets and monitors the capital requirements of the Bank.

The basis of dividend declaration is from the income of the previous years and the capital adequacy ratio not less than the regulatory requirement and not far from the industry ratio.

PASB set a policy that no cash dividend can be declared for the stockholders until the minimum capital regulatory requirements has been reached.

To date, the Bank has not declared dividend.

Related Party Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; 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.

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such a relationship also exists between and/or among the reporting entities, which are under common control with the reporting enterprise, or between, and/or among the reporting entities and its key management personnel, directors, or its shareholders.

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

Pacific Ace Savings Bank is committed to ensure no transaction with the Director, Officer, Stockholder and Related Interest (DOSRI) will conflict with the interests of the bank.

In order to ensure that RPTs are at arm's length, fees are approved by the Board of Directors before any contract is executed. The concerned DOS must abstain from approving fees or deciding the scope of work to be performed.

The Bank's approval processes of the RPTs are in accordance with the Board-approved RPT policy, where limits or thresholds are specified as well as the basis of such thresholds.

There are transactions and arrangements between the Bank and its related parties and the effects of these on the basis determined between the parties shall be reflected in these financial statements.

Approval of RPTs depends upon the Board, in which concerned directors are not included in the vetting approval process.

CORPORATE GOVERNANCE

Related Party Transactions

Aggregate RPTs with Directors, Officers and Stockholders

1. Consultancy fee and travel allowance paid and accrued to Atty. March Jefferson Fernandez, *a stockholder*, amounting to ₱555,000 and ₱120,000, respectively for the corporate secretarial and legal services made on behalf of the Bank.
2. Director's fee paid and accrued to Virginia Dio, *a director and president*, amounting to ₱399,999.96
3. Director's fee paid and accrued to Ma. Fatima Teng Gui, *an independent director*, amounting to ₱26,666.64
4. Director's fee paid and accrued to Von Rodriguez, *an independent director*, amounting to ₱60,000
5. Remuneration of Key Management Personnel for the year includes director's fee, medicine and representation expenses.

Aggregate RPTs with Related Interests

1. Remittance fees received and accrued from PAX (HK) Ltd amounting to ₱6,980,230
2. Rental expense paid to PASBC amounting to ₱1,674,657
3. Rental expense paid to PAMCOR amounting to ₱176,842
4. Water line expense paid to PASBC amounting to ₱120,490

The Bank discourages any type of loan to DOSRI, including loan to employees to protect the Bank's interest and avoid undue advantage of the interest in the Bank. Hence, the Bank gives neither material RPTs nor loans to DOS or employees, nor their close family members within the second degree of consanguinity and affinity, legitimate or common-law.

There is no material related party transactions recorded during the year.

CORPORATE GOVERNANCE

Related Party Transactions

Pacific Ace Group of Companies

HONG KONG	MACAU	SUBIC	MANILA
Pacific Ace Holdings Int'l Ltd	Pacific Ace (Macau) Remittance Ltd.	Pacific Ace Subic Bay Corp.	Pacific Ace Management Corp.
Pacific Ace Management Ltd.		Pacific Ace Savings Bank	Pacific Ace Recovery and Collection Inc.
Pacific Ace Finance Ltd.		Pacific Ace Subic Foundation Inc.	Pacific Ace Housing & Development Corp.
Pacific Ace Forex HK Ltd.		Geminus 1421 Corp.	Westdale Philippines Inc.
PASCOR HK Ltd.			
Pacific Ace E-Pay HK Ltd.			
HS Equities Ltd.			

CORPORATE GOVERNANCE

Audit Committee

The audit committee is composed of three non-executive members, all of whom are non-executive directors, including the Chairman with the following primary duties and responsibilities.

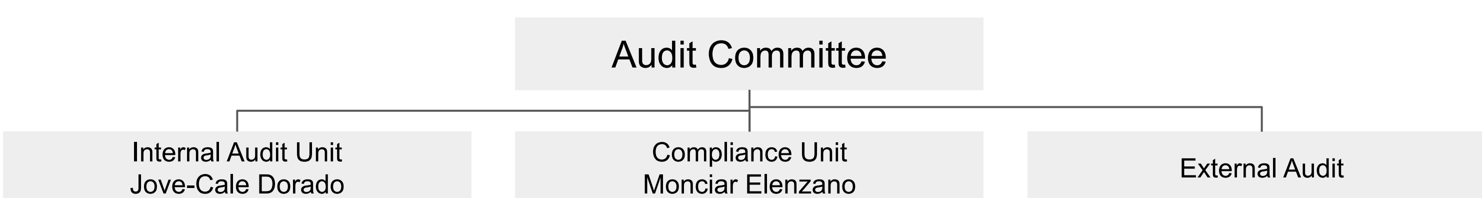
- Oversee the financial reporting framework: AC shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
- Monitor and evaluate the adequacy and effectiveness of the internal control system: AC shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the bank's risk profile and strategic direction.
- Oversee the internal audit function: AC shall be responsible for the appointment/selection, remuneration, and dismissal of the internal auditor. It shall review and approve the audit scope and frequency. The committee shall ensure that the scope covers the review of the effectiveness of the Bank's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. AC shall then review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.
- Oversee the external audit function: AC shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.
- Oversee implementation of corrective actions.: AC shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.

- Investigate significant issues/concerns raised: AC shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.

- Establish a whistleblowing mechanism: AC shall establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Due to simple operations, internal audit unit is manned by a single acting internal auditor who is supervised by the audit committee. Compliance unit is also reporting in the audit committee for the regulatory compliance update, and internal control exceptions.

STRUCTURE OF AUDIT COMMITTEE



CORPORATE GOVERNANCE

Self-Assessment Function

Internal Auditor

Under the direct supervision of the Audit Committee, the Internal Audit evaluates and ensures the adequacy and effectiveness of the internal controls of the Bank. The Internal Audit Department is mandated to conduct financial audit, compliance audit, operations audit, management audit, and information system audit. It also holds full access rights to all activities, information, records, properties, and personnel relevant to the internal audit activity.

External Auditor

Alas Oplas & Co., CPAs is the authorized External Auditors of the Bank for 2022. It presents an audit plan to the Audit Committee and performs audit risk assessment. It also reviewed the internal audit report and compliance with accounting standards and regulatory requirements.

Compliance System

The Bank's compliance system was designed to identify and mitigate business risks, which may erode the franchise value of the bank. Business risks include but not limited to the following:

- Risks to reputation that arise from internal decisions that may damage a bank's market standing;
- Risks to reputation that arise from internal decision and practices that ultimately impinge on the public trust of a bank;
- Risks from the action of a bank that are contrary to the existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standard of good practice; and
- Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect the bank's business model.

CORPORATE GOVERNANCE

Self-Assessment Function

The Compliance Department is responsible for ensuring that the Bank complies with the requirements, policies, circulars, and guidelines issued by BSP, PDIC, BIR, SBMA, SEC and other government agencies. It is headed by a Chief Compliance Officer (CCO), which is appointed by the Bank's board of directors and directly reporting to the BOD.

The Board of Directors and Audit Committee regularly review the Internal audit and compliance program and shall then assigned schedules of internal control based on risk prioritization. It also monitors and assess the timely resolution of the risk exceptions noted by the compliance officer, internal and external auditors.

STRUCTURE OF INTERNAL AUDIT AND COMPLIANCE FUNCTION

Board of Directors
Verona Joy Dio
Virginia Dio
Roldan Escala
Ma Fatima Teng Gui
Atty Von F Rodriguez

Chief Compliance Officer
Monciar Elenzano

Audit Committee
Ma Fatima Teng Gui
Verona Joy Dio
Atty Von F Rodriguez

Acting Internal Auditor
Jove-Cale Dorado

CORPORATE GOVERNANCE

Corporate Social Responsibility

The Green Building

The PASB headquarters is a green building inside and out and was created with ecological principles in mind. The Green building houses over 100 species of plants and flowers. The lush vegetation all around and inside the bank provides a welcoming ambiance while naturally filtering the air. Bank staff devote some working hours cultivating the indoor plants of the bank, allowing them to meditate and reconnect with nature.

The rooftop of the bank building is used to support a 100 sqm hydroponic garden which initially produces sufficient amounts of lettuces that can be fed to the employees and can be used as a model to the community.

We support the government initiative of implementing sustainable finance based on the recently issued Circular No. 1085 series of 2020 and Circular No. 1128 series of 2021.

We incorporated Sustainable Finance principles in our policies related to credit risk, operational risk and corporate governance policies as well as environmental and social risk.

CORPORATE GOVERNANCE

Corporate Social Responsibility

Pacific Ace Foundation and Action Group Against Poverty

Since 2018, Pacific Ace Savings Bank has partnered with Pacific Ace Foundation (PAF) with the goal of extending scholarships and financial aid to college students until these students develop their careers in the marketplace.

The foundation is also linked to the Action Group Against Poverty (AGAP), a group of super micro-loan borrowers within Olongapo, Zambales and Bataan who can start their humble businesses from ₱6,000 to ₱30,000 capital.

Due to COVID-19 pandemic and on-going head office renovation, the voluntary works of the Foundation were limited. The operation of PAF will resume by supporting college students' school fees and allowances, including on-the-job trainings to enhance their experience and expertise in their chosen courses.

Sustainable Finance Framework

Pacific Ace Savings Bank supports the government initiative of implementing sustainable finance based on the recently issued Circular No. 1085 series of 2020 and Circular No. 1128 series of 2021.

PASB has incorporated Sustainable Finance principles in its policies related to credit risk, operational risk and corporate governance policies as well as environmental and social risk.

Sustainability Strategic Objectives and Risk Appetite

Customers

The Bank is raising customer awareness in E&S risk management and issues present in the Philippines particularly within the region. Consumer awareness is performed through orientation particularly during the loan application process.

Non-borrowers are also welcome to observe and explore the Bank's projects such as Hydroponic Gardening, Urban Vegetable Gardening, internal and external landscaping, among others.

Employees

We ensure that each employee is equipped with knowledge on how to sustain a green environment, how to conserve and preserve natural resources and how to avoid risks that would potentially harm the environment (E&S risks). This would start from taking care of our plants, participating in the 3R (Reuse, Reduce and Recycle) project we started in 2020, among others.

The Bank ensures that the Well-Being of each employee is the utmost priority, to effectively perform their duties and responsibilities in the Bank and as part of the community.

Partners

The bank chooses third parties who practice E&S risk management consciousness or those who are not exposed to any E&S risk.

E&S risk management is part of the due diligence process in choosing third party service providers. Currently, the Bank availed services from IT system developer, remittance centers, courier, switch, ATM card, passbook and checkbook printers, legal and consultancy, among others.
Abovementioned services were approved by the Board and third parties providing such services have to undergo regular assessment if such third parties still provide acceptable services for the Bank.

Processes

The Board, senior management and employees are involved in the implementation of E&S risk awareness in all the bank's activities and decision making.

Employees are encouraged to participate and recommend to the management on how the Bank can improve its operations.

Products and Services

The Bank's products and services are secured by insurance. Stockholders are committed to pay out customers' deposits in case of unforeseen events or sudden liquidation. The Bank has a contingency funding plan in place.

CORPORATE GOVERNANCE

Sustainable Finance Framework

Location

The Bank ensures regular security and back up of data. Disaster recovery sites are maintained and business continuity plans are tested annually by the IT department.

In the Bank's business continuity plan, it covers physical and social risks such as flood, fire, earthquake, drought, power failure, system failure, civil disorder, employee strike, labor issues, human rights violations, among others. Also, the Bank considers other risks present in the geographic location of the main business such as risk of occurrence of high tides, volcanic eruptions and landslides in high areas. Albeit these are mere extreme events that may affect the business operations, however, by considering this, the Bank can avoid minor events as well.

Overview of Environmental and Social Risk Management System

The Bank has adopted the E&S risk management to its various policies to ensure proper implementation and management up to the lowest level of E&S risks.

Credit Risk Management

The Bank's credit policy incorporates E&S risk management to the credit risk strategy, risk identification and assessment of the borrowers, and risk measurement, monitoring, reporting and control. Included in the processes are the orientation with the borrowers on their loan purpose to include E&S risk awareness, credit scoring, among others.

Operational Risk Management

The Bank's operational risk incorporates operational risk identification and assessment, risk monitoring and reporting, and risk control and mitigation.

Corporate Governance

The Bank has sufficient Board-level discussions on approval, implementation and monitoring of E&S risks management, identifying potential sources of E&S risks both internal and external, and assessment of the bank's system and operations in mitigating E&S risks.

Internal Audit Compliance

The Bank's control units shall adopt E&S risk management on the internal audit and compliance program to ensure that the policies are aligned with the international sustainability standards, laws and regulations and ensure adequate implementation of the same.

Product and Services

All deposit and loan products offered by the Bank are compliant with the E&S risk management standards. Although the Bank does not offer bonds or insurance products due to its streamlined operations, the products and services offered suit the needs and requirements of most of our Kababayans in the Philippines, Hongkong and Macau. Wth digitization of bank transactions, the Bank is able to serve more clients through electronic money, ATM services and now the newly introduced mobile banking with check balance and view transaction history functions.

E&S Risk Exposures

As the Bank continually expands and evolves during this COVID-19 pandemic as we focus on the head office renovation, system improvements and staff re-training, it does not recognize yet any E&S risk exposure during the year.

E&S Risks and Their Impact on the Bank

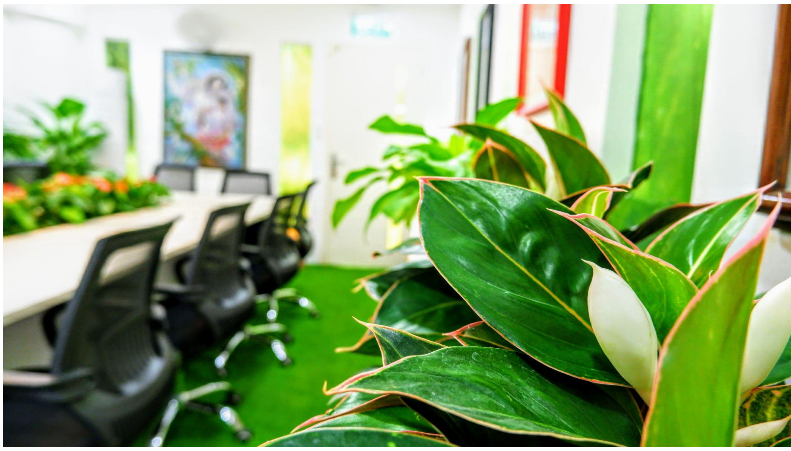
While the impact of the social and risk issues in the Bank is too low to detect especially during the implementation of the new policies, the Bank still recognizes such risk to imply negative effect to the the environment as well as to the operations of the Bank.

By next financial year, risk issues may appear during the implementation of the E&S risk management, and the Bank will consider such risks to come up to a more effective level of regularization.

OTHER INITIATIVES

Greening the Bank Project

This greening the Bank project has started in the first quarter of 2021. Prior to the pandemic, the head office interior was already filled with plants. And it was reconstructed in such a way that it will be aligned with the green building of an affiliated company, Pacific Ace Subic Bay Corporation.



OTHER INITIATIVES

Urban Vegetable Planting and Hydroponics Project

The project started in the last quarter of 2021 and will soon be introduced to the customers, the Bank’s officers and employees.

OTHER INITIATIVES

Re-Use, Reduce, Recycle Project

The Bank has been practicing “ecobrick” projects since 2021. Ecobrack is a plastic bottle packed with used plastic to a set density. They serve as reusable building blocks. Ecobricks can be used to produce various items, including furniture, garden walls and other structures.

Along with the ecobrick project, employees are practicing waste segregation. Common sample is the segregation of used and scratch papers. Scratch papers are used by the Bank for internal reports while clean papers are for external and third party reports.

The Bank is also practicing composting as part of employees daily routine. All greens and browns produced in the Bank are placed in a large container for composting. The produce will be used as a fertilizer for all the plants.

The Bank eliminates garbage as each employee practices “clean as you go” in their work stations making them reduce consumption of unnecessary waste or garbage since majority of the garbage produced will go straight to either compost bins or paper shredding department.

CONSUMER PROTECTION

Structure

To ensure that inherent consumer protection risks are identified, measured, monitored and controlled, the Bank adopted Consumer Protection Risk Management System particularly on disclosure and transparency, protection of customer information, fair treatment, financial education and formulation of consumer assistance management. Likewise, this system will ensure the bank’s adherence to consumer protection standards, compliance with consumer protection laws, rules, and regulations.

Board of Directors

The board is responsible for developing and maintaining a sound consumer protection risk management system (CPRMS) that is integrated into the overall framework for the entire product and service life-cycle. The board and senior management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The quality and timeliness of the information provided to the board and senior management regarding the bank's CPRMS are especially important for assessing the program's effectiveness. The board and senior management must also ensure that sufficient resources have been devoted to the program. The ability to achieve the consumer protection objectives depends, in large part, on the authority and independence of the individuals directly responsible for implementing the CPRMS and for performing audit/review activities, and the support provided by the board and senior management. The board and senior management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

Compliance Program

A well planned, implemented, and maintained consumer protection compliance program should prevent or reduce regulatory violations and protect consumers from non-compliance and associated harms and loss. This program lead by compliance office was adopted to guide all the staff, officers, management and the board of directors in ensuring the bank’s adherence to consumer protection standards, compliance with consumer protection laws, rules and regulations.

CONSUMER PROTECTION

Structure

Internal Audit Function

Independent of the compliance function, the bank's audit function should review its consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. The bank's internal audit of the bank business units/functions should include the consumer protection audit program. A well-designed and implemented consumer protection audit program ensures that the board and audit committee shall be able to make an assessment on the effectiveness of implementation as well as adequacy of approved policies and standards in meeting the established consumer protection objectives.

Training

Continuing education of personnel about consumer protection laws, rules and regulations as well as related bank policies and procedures is essential to maintaining a sound consumer protection compliance program. PASB should ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The bank should institute a consumer protection training program that is appropriate to its organization structure and the activities it engages. The training program should be able to address changes in consumer protection laws, rules and regulations and policies and procedures and should be provided in a timely manner.

Policies and Procedures

A. be consistent with consumer protection policies approved by the board;
B. ensure that consumer protection practices are embedded in the bank's business operations;
C. address compliance with consumer protection laws, rules, and regulations; and
D. reviewed periodically and kept-to-date as it serve as reference for employees in their day-to-day activities.

CONSUMER PROTECTION

Consumer Assistance Management System (CAMS)

The bank recognizes the major role of customer in achieving its objective of a stable banking operation apart from being the reason of its existence as part of the Bank's goal of financial inclusion alleviation. In support also to the initiative of BSP towards bringing a strong and stable financial system, it is the policy of the bank to support the protection of customer's rights at all times.

The main objective of the policy is to obtain 100% clients satisfaction on products and services of Bank, develop customer care service, and to be more aware of the needs of members and become proactive in addressing future demands and concerns.

There is a dedicated department handling consumer protection called "We Care Center" lead by a WCC Head with (4) four WCC staff equipped with skills relevant in handling customer concerns and complaints. WCC Head is directly reporting to the President to ensure that senior management is up to date with the bank's CAMS.

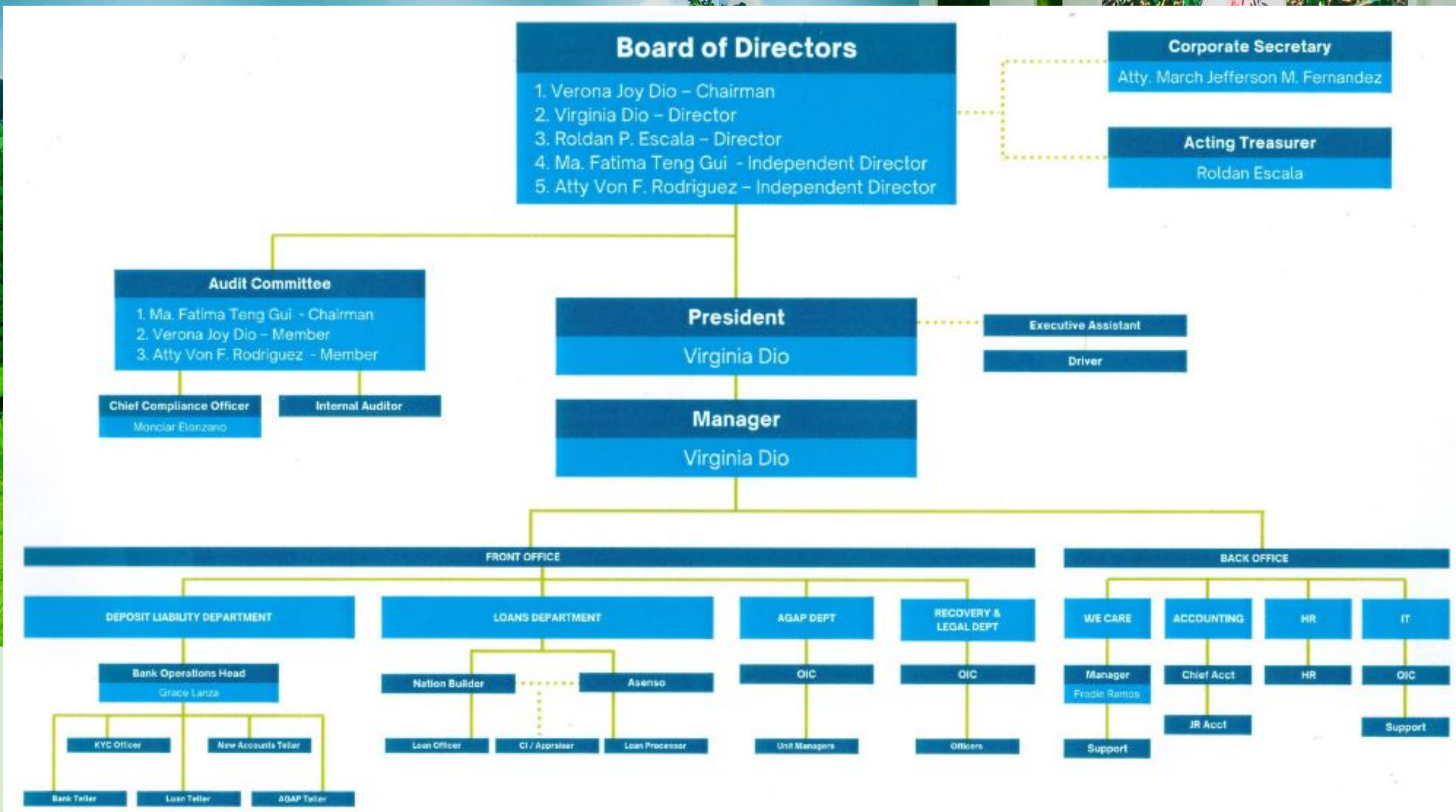
WCC is committed to solve each customer concern within the timeline set in the bank's CAMS.

No.	Stages	Simple	Complex
1.	Acknowledgment	Within 2 days	Within 2 days
2.	Processing and Resolution	Within 7 days	Within 45 days
3.	Communication of Resolution	Within 9 days	Within 47 days

Customer complaints shall be recorded in the complaint database used to monitor timely resolution of complaints and assessment to control increasing number of identical complaints.

CORPORATE INFORMATION

Organizational Structure



CORPORATE INFORMATION

List of Major Stockholders

Name	Nationality	Shares Subscribed		
		No. of Shares Subscribed	Amount Subscribed	%
Virginia S. Dio	Filipino	480,000	₱48,000,000	40.00%
Veronica S. Dio	Filipino	360,000	₱36,000,000	30.00%
Verona Joy S. Dio	Filipino	357,738	₱35,773,800	29.81%

CORPORATE INFORMATION

List of Products and Services Offered

	Deposit Products
A.	SAVINGS
	Special Savings
1	WOW Savings Account
2	Seaman Dream Savers
	Regular Savings
1	Dream Savers
2	Coolkids Savings
3	AGAP Savings
	Automatic Transfer Account
1	ASENSO SA (Loan Clients)
	ATM Payroll
1	Sikap
B.	CORPORATE CHECKING
1	Nation Builder
C.	INDIVIDUAL CHECKING
1	Chequemate (Personal)
2	Bizcheck (Business)
D.	ATA Checking
1	Asenso CA (Loan Clients)

E.	TIME DEPOSIT
1	Peso Time Deposit
2	FCDU Time Deposit
	Loan Products
A.	NATION BUILDER (Secured)
1	Agri Loan
2	Business Loan
3	Housing Loan
4	Consumer Loan
B.	ASENSO LOAN (Unsecured)
1	Agri Loan
2	Business Loan
3	Housing Loan
4	Consumer Loan
C.	SUPER MICRO LOAN
1	AGAP Loan
	Electronic Money Product
1	Family Cash Card (OFW Remitter and Beneficiaries)
	ATM Service
1	As Acquirer - 3 ATM Terminals in Subic and Paranaque
2	As Issuer - almost 30,000 ATMs nationwide

PACIFIC ACE
SAVINGS BANK

AUDITED FINANCIAL STATEMENTS FY2022

Alas Oplas & Co., CPAs

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Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
PACIFIC ACE SAVINGS BANK
Retail 1, Times Square, Cinema Complex
Subic Bay Freeport Zone, Olongapo City

Qualified Opinion

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

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

Basis for Qualified Opinion

As discussed in Note 2 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2018, except for the impairment requirements of the new standard. PFRS 9 introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts.

The Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) in assessing and measuring impairment for its credit exposures. Appendix 15 of Manual of Regulations for Banks (MORB) provides guidelines for provisioning which is inconsistent with PFRS 9 and thus constitutes a departure from PFRS. As of December 31, 2022 and 2021, the Bank's total allowance on credit losses on loans and other receivables amounted to ₱25.34 million and ₱16.25 million, as disclosed in Note 10. As the Bank has not implemented or assessed the impact of the ECL requirements of PFRS 9, any adjustments to the amounts of surplus, allowance for credit losses and related deferred tax assets as at December 31, 2022 and 2021 have not been determined due to certain limitations.

The Bank has unbooked allowance for credit losses on loans receivable amounting to ₱3,718,396, based on the provisions of Appendix 15 of the BSP Manual of Regulations for Banks, as disclosed in Note 10. Should the Bank recognize the said amount, the Bank's profit and equity for the year ended December 31, 2022 will be reduced by ₱3,718,396 and capital adequacy ratio (CAR) as of December 31, 2022 will be reduced to 52.53%.

28 APR 2023

Alas Oplas & Co., CPAs

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

Other Matter
In 2022, the Bank recognizes interest income using effective interest method. Prior to 2022, the Bank recognized interest income only to the extent of cash collections which became the basis of qualified opinion for the year ended December 31, 2021.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

28 APR 2023

Alas Oplas & Co., CPAs

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

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

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

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulation No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 28 and Revenue Regulation No. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 27 are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management **PACIFIC ACE SAVINGS BANK.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

RYAN A. SABUG
Partner
CPA License No. 0111183
BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 9565190, issued on January 3, 2023, Makati City

April 13, 2023
Makati City, Philippines

2 8 APR 2023

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PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	2022	2021
ASSETS			
Cash on hand	8	**22,970,375**	10,138,168
Due from Bangko Sentral ng Pilipinas	8	**750,922,043**	486,615,737
Due from other banks	8	**26,024,250**	65,551,911
Investment securities at amortized cost	9	**41,064,924**	41,064,924
Loans and other receivables – net	10	**107,952,847**	103,389,910
Bank premises, furniture, fixtures and equipment – net	11	**25,263,624**	32,074,305
Investment properties – net	12	**1,251,877**	1,263,579
Other assets	13	**14,544,883**	3,638,015
TOTAL ASSETS		**989,994,823**	743,736,549
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	14	**710,067,963**	517,947,139
Income tax payable		**223,230**	195,503
Accrued and other liabilities	15	**158,718,038**	115,534,730
Total Liabilities		**869,009,231**	633,677,372
EQUITY			
Share capital	16	**68,117,500**	68,117,500
Retained earnings – free	16	**52,868,092**	41,941,677
Total Equity		**120,985,592**	110,059,177
TOTAL LIABILITIES AND EQUITY		**989,994,823**	743,736,549

See Notes to Financial Statements.

2 8 APR 2023

PACIFIC ACE SAVINGS BANK

AFS 2022

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	2022	2021
INTEREST INCOME			
Due from BSP and other banks	8	**13,139,463**	4,968,991
Investment securities at amortized cost	9	**1,074,176**	1,040,953
Loans and other receivables	10	**19,194,224**	17,423,205
		33,407,863	23,433,149
INTEREST EXPENSE			
Deposit liabilities	14	**(5,183,693)**	(4,035,958)
NET INTEREST INCOME		**28,224,170**	19,397,191
OTHER OPERATING INCOME	17	**20,034,068**	18,165,069
TOTAL OPERATING INCOME		**48,258,238**	37,562,260
OPERATING EXPENSES	18	**(26,941,112)**	(22,331,111)
PROVISION FOR CREDIT LOSSES	19	**(9,888,028)**	(2,264,211)
PROFIT BEFORE TAX		**11,429,098**	12,966,938
INCOME TAX EXPENSE	20	**(502,683)**	(606,953)
PROFIT		**10,926,415**	12,359,985
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME		**10,926,415**	12,359,985

See Notes to Financial Statements.

SUBIC BAY
28 APR 2023

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PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Share Capital (Note 16)	Retained Earnings – free (Note 16)	Total Equity
Balance at December 31, 2020	**68,117,500**	**29,581,692**	**97,699,192**
Profit	–	12,359,985	12,359,985
Balance at December 31, 2021	**68,117,500**	**41,941,677**	**110,059,177**
Profit	–	10,926,415	10,926,415
Balance at December 31, 2022	**68,117,500**	**52,868,092**	**120,985,592**

PACIFIC ACE SAVINGS BANK

AFS 2022

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**11,429,098**	12,966,938
Adjustments for:			
Interest income	8,9	**(14,213,639)**	(6,009,944)
Interest expense – lease liabilities	15	**140,488**	238,648
Depreciation	18	**7,817,468**	6,031,266
Provision for credit losses	19	**9,888,028**	2,264,211
Operating cash flows before working capital changes		**15,061,443**	15,491,119
Changes in operating assets and liabilities			
Increase in:			
Loans and other receivables		**(13,650,581)**	(21,656,290)
Other assets		**(11,695,697)**	(659,054)
Increase in:			
Deposit liabilities		**192,120,825**	26,913,551
Accrued and other liabilities		**44,603,364**	55,631,175
Cash generated from operations		**226,439,354**	75,720,501
Interest received	8,9	**14,213,639**	6,009,944
Income tax paid		**(474,956)**	(720,190)
Net cash generated from operating activities		**240,178,037**	81,010,255
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from investment securities at amortized cost	9	–	1,209,725
Acquisition of investment securities at amortized cost	9	–	(10,000,000)
Acquisition of bank premises, furniture, fixtures, and equipment	11	**(1,006,641)**	(568,128)
Net cash used in investing activities		**(1,006,641)**	(9,358,403)
CASH FLOWS FROM FINANCING ACTIVITY			
Payments for lease liabilities – principal and interest	15	**(1,560,544)**	(1,550,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**237,610,852**	70,101,452
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash on hand		**10,138,168**	11,341,153
Due from Bangko Sentral ng Pilipinas		**486,615,737**	179,946,565
Due from other banks		**65,551,911**	300,916,646
		562,305,816	492,204,364
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash on hand	8	**22,970,375**	10,138,168
Due from Bangko Sentral ng Pilipinas	8	**750,922,043**	486,615,737
Due from other banks	8	**26,024,250**	65,551,911
		799,916,668	562,305,816

See Notes to Financial Statements

PACIFIC ACE SAVINGS BANK

1. GENERAL INFORMATION

1.01 Corporate Information

PACIFIC ACE SAVINGS BANK, INC. (the "Bank") was duly registered with the Securities and Exchange Commission (SEC) on November 6, 1998 under SEC Registration No. A199816569. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to engage in and carry on the general business of a savings/thrift bank, to exercise all the rights, attributes, powers, and privileges together with all the assumption of all duties and obligations of a savings/thrift bank as provided for the Thrift Banking Act of 1995 (Republic Act No. 7906) and other related laws, and to transact and do all matters and things incidental thereto or which may at any time hereafter be usual in connection with the business of a savings or thrift bank.

The Bank is registered with Subic Bay Metropolitan Authority (SBMA) as a Subic Bay Freeport (SBF) enterprise under Republic Act 7227, otherwise known as the bases conversion and development act of 1992. As a SBF registered enterprise the Bank is subject to 5% preferential tax rate on gross entitled to the privileges and benefits provided for under RA 7227 and its implementing rules and regulations such as not limited to tax and duty free importation of raw materials, capital equipment and household and personal items for use and only within SBF Zone. The Bank is 100.00% owned by Filipino Citizens.

On October 9, 2021, SBMA issued Certificate of Registration and Tax Exemption with No. 2001-2044, granting the Bank the rights, privileges, and benefits of a SBF. The Certificate is automatically renewed under Section 23 of the Implementing Rules from the set forth above until August 31, 2023.

The registered office, which is also its principal place of business, is located at Retail 1, Times Square, Cinema Complex, Subic Bay Freeport Zone, Olongapo City. The Bank is domiciled in the Philippines.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

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

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standards:

PFRS 9 Financial Instruments – For measurement and impairment, the Bank adopted Appendix 15 of the Manual of Regulations for Banks (MORB) that provides guidelines for provisioning based on number of days past due, collateral and type of loan.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All presented financial information has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards and Interpretations Effective on January 1, 2022

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3.01.01 Annual Improvements to PFRS Standards 2018-2020

PFRS 1 First-time Adoption of International Financial Reporting Standards
The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. A subsidiary can elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements.

A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

PFRS 9 Financial Instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

PFRS 16 Leases
The amendment removes the illustration of the reimbursement of leasehold improvements.

PAS 41 Agriculture
The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value.

3.01.02 Amendments to PAS 37: Onerous Contracts – Costs of Fulfilling a Contract
The amendment specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.01.03 Amendments to PAS 16, Property, Plant and Equipment - Proceeds before Intended Use
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to PAS 16) amends the standard to 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 amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.01.04 Amendments to PFRS 3, Reference to the Conceptual Framework
The changes include:

- update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or Philippine IFRIC 21, an acquirer applies PAS 37 or Philippine IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.02 Standards Issued but Not Yet Effective (Effective Beginning on or After January 1, 2023)

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 Amendments to PAS 1, Classification of Liabilities as Current or Non-current
The amendments affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual periods beginning on or after 1 January 2024.

The management of the Bank is still evaluating the impact of the new standard.

3.02.02 Amendments to PAS 8, Definition of Accounting Estimates
The changes focus entirely on accounting estimates and clarify the following:

- Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- Clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.03 Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies

- An entity is now required to disclose its material accounting policy information (MAPI) instead of its significant accounting policies (SAP);
- Explains how an entity can identify MAPI and to give examples of when accounting policy information is likely to be material;
- Clarified that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- Clarified that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- Clarified that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Guidance and examples are added to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.04 Amendments to PAS 12, Deferred Tax related to Assets and Liabilities from a Single Transaction
The main change is an exemption from the initial recognition exemption provided in PAS 12.15(b) and PAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph PAS 12.22A.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.05 Amendments to PFRS 17, Insurance Contracts
The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

PFRS 17 supersedes PFRS 4 'Insurance Contracts' and related interpretations.

The FRSC amended the mandatory effective date of PFRS 17 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of IFRS 17 by two (2) years after its effective date as decided by the IASB.

The standard is not applicable to the Bank.

Deferred Effectivity

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

4.01.01 Initial Recognition and Measurement
Financial assets are recognized in the Bank's financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Plan's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

4.01.02 Classification

The Bank classifies its financial assets, other than hedging instruments, in the following categories: fair value through profit or loss (FVTPL), financial asset fair value through other comprehensive income (FVOCI) and financial asset at amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

As of December 31, 2022 and 2021, the Bank has not designated any financial assets as at FVTPL.

Financial Assets at Amortized Cost

Financial assets at amortized cost are quoted non-derivative financial asset with fixed and determinable payment and fixed maturities for which Bank's management has the positive intention and ability to hold maturity.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2022 and 2021, the Bank's cash and cash equivalents, loans receivables and investment securities at amortized costs are classified under this category.

In the statement of cash flows, cash and cash equivalents includes cash in bank and temporary placements with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are valued at face value. If a bank holding the funds of the Plan is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Loans and other receivable include those arising from direct loans to customers including officers and employees. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI
For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2022 and 2021, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI
For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2022 and 2021, the Bank does not have equity instruments at FVOCI.

4.01.03 Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

4.01.04 Impairment of Financial Assets
At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing expected credit losses (ECL) for its loans and other receivables.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank's ACL measurement, as determined by the Management, is disclosed in Note 6.02.05.

As of December 31, 2022 and 2021 the Bank did not assess the impact of ECL model that is in accordance with PFRS 9 due to certain limitations.

PACIFIC ACE SAVINGS BANK

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

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

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount that the Bank could be required to repay.

4.02 Financial Liabilities

4.02.01 Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

All financial liabilities are recognized at fair value and, in the case of financial liabilities at FVTPL plus any directly attributable transaction costs.

The Bank's financial liabilities at amortized cost includes deposit liabilities and accrued and other liabilities.

4.02.02 Subsequent Measurement
The measurement of financial liabilities depends on their classification, as described as follows:

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

  Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

  Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

  As of December 31, 2022 and 2021, the Bank has not designated any financial liability as at FVTPL.

- Financial liabilities at amortized cost

  After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortization process.

  Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

4.02.03 Derecognition

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.03 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are measured at cost less any accumulated depreciation, amortization and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. The carrying amount of replaced parts is derecognized. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

Land is not depreciated. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Transportation equipment	–	5 years
Furniture, fixtures and equipment	–	5 – 10 years
IT equipment	–	5 – 10 years
Other Equipment	–	5 – 10 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 10 years or the lease term.

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

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.04 Investment Property

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period in which the property is derecognized.

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

Transfers to and from investment property do not result in gain or loss.

4.05 Prepayment and other assets

Other assets not classified as financial assets, bank premises, furniture, fixture and equipment, and investment property, includes prepaid assets, prepaid income tax and the likes. These other assets qualifying into the definition of assets under PAS 1 Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.06 Impairment of Non-financial Assets

At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.07 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; 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 relationships, attention is directed to the substance of the relationship and not merely on the legal form.

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
(4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

Related party transactions (RPTs) shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4.08 Revenue Recognition

4.08.01 Revenue Recognition for Revenues within the scope of PFRS 15

Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business. In addition, the following specific recognition criteria must also be met before revenue is recognized.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

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

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

Penalties and service charges

The Bank earns penalties and service charges from a diverse range of services it provides to its customers. Service fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit-related fees. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Other Income

Other income arises from bank fees and charges, bank commissions and miscellaneous income. Other income is recognized upon completion of the earning process and the collectability is reasonably assured.

4.08.02 Revenue Recognition for Revenues outside the scope of PFRS 15

For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest on Loans

Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest, where payments are made on a monthly basis, is recognized on a monthly basis on payment dates using the effective interest method. Interest income on loans and discount with no advanced interest, where payments are made in lump sum on maturity dates, is recognized only at the time it is paid or when cash is received. The Bank's loan system is not capable of accruing interest income on this type of loan, which comprises majority of the Bank's loan portfolio.

The Bank does not accrue interest income on past due loans in compliance with BSP regulations.

The Bank shall only charge interest based on the outstanding balance of a loan. For a loan where the principal is payable in installments, interest per instalment shall be calculated based on the outstanding balance of the loan.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

Interest Income on Bank Deposits and Investment Securities at Amortized Cost
Interest on bank deposits and investment securities at amortized cost are recognized in profit or loss using the effective interest method.

4.09 Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

4.10 Leases

4.10.01 The Bank as Lessee
For any new contracts entered into on or after January 1, 2019, 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 (3) 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.
- 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.

Recognition and Initial Measurement
At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. 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).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that 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 included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

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

Subsequent Measurement

The Bank depreciates the right-of-use assets 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.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

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.

4.11 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including trustees and management.

4.11.01 Short-term Employee Benefits
The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, bonus and incentives, directors' fees, SSS, PHIC, HDMF contributions, accumulating and vesting credit leaves and gratuity pay.

4.11.02 Post-employment Benefits
The Bank does not have an existing retirement plan. However, it is subject to the minimum retirement benefit under the Republic Act (RA) 7641, "The Retirement Pay Law," which provides for retirement pay to qualified employees in the absence of any retirement plan. RA 7641 requires that private employers should provide minimum retirement benefits to employees who have reached the age of 60 with at least five years of service to the Bank.

The retirement pay is equivalent to at least one-half month salary for every year of service, a fraction of at least six months being considered as one whole year. Unless the parties provide for broader inclusions, the term half-month salary shall mean 15 days plus one-twelfth of the 13th month pay and the cash equivalent of not more than five days of service incentive leave.

the Company has not yet established a retirement fund for its regular employees and no amount of retirement benefit obligation has been accrued because the Company's management deemed that the amount of retirement obligation as of December 31, 2022 and 2021 is not significant.

4.12 Income Tax

The tax expense for the period pertain to the current tax. Tax is recognized in the 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.

4.12.01 Current Income Tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.13 Equity

Share capital represents the nominal value of shares that have been issued.

Retained earnings includes all current and prior period results of operations as reported in the statement of comprehensive income.

4.14 Earnings Per Share

Earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during each year after giving retroactive effect to share dividends and share splits declared during the year, if any.

4.15 Provisions, Contingent Liabilities and Contingent Assets

4.15.01 Provisions
Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.15.02 Contingencies
Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.16 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.17 Events After the End of the Reporting Date

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with Financial Reporting Standards in the Philippines for Banks requires management to use estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.01 Critical Judgments in Applying Accounting Policies

The Bank has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

5.01.01 Classification of financial assets (Note 4)
The Bank follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

5.01.02 Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs.

5.01.03 Determining Provisions and Contingencies
The Bank is currently involved in various legal proceedings. The estimate of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential result. The Bank currently does not believe that these proceedings will have a material adverse effect on its financial condition. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

5.01.04 Determining Fair Value of Financial Instruments
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.05 Determining Fair Value of Acquired Assets classified as Investment Properties
The Bank determines the fair value of the acquired properties through internally- or externally-generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The fair value of investment properties are disclosed in Note 12.

5.01.06 Determining Asset Impairment
The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, investments, assets held for sale and intangible assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that property and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

In both years, Management determined that there was an indication of impairment that occurred on its investment properties, as disclosed in Note 12.

5.01.07 Determining whether or not a contract contains a lease
At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset
An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfil a contract with the Bank, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to obtain substantially all of the economic benefits from use of the identified asset
To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has the right to obtain substantially all of the economic benefits.

If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

Right to direct the use of the identified asset
The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.02 Key Sources of Estimation Uncertainties

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5.02.01 Estimating Allowances for Credit Losses
The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on 8third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

In both years, the collectability of Bank's loans receivables and other assets are assessed and determined that certain borrowers are unable to meet their financial obligations. Consequently, the Bank recognized total provision for credit losses amounting to ₱9,888,028 and ₱2,264,211 in 2022 and 2021, respectively, as disclosed in Note 19. Allowance for credit losses – loans receivables amounted to ₱25,343,140 and ₱16,255,539 as of December 31, 2022 and 2021, respectively, as disclosed in Note 10. Allowance for credit losses – accounts receivables amounted to ₱4,249,352 and ₱3,448,968 as of December 31, 2022 and 2021, respectively, as disclosed in Note 13.

5.02.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank's Premises, Furniture, Fixtures and Equipment and Investment Properties

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment and investment properties are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of bank's premises, furniture, fixtures and equipment and investment properties would increase the recognized operating expenses and decrease non-current assets.

The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱25,263,624 and ₱32,074,305 as of December 31, 2022 and 2021, respectively, as disclosed in Note 11. The carrying amounts of investment properties amounted to ₱1,251,877 and ₱1,263,579, as of December 31, 2022 and 2021, respectively, as disclosed in Note 12.

5.02.03 Determining Impairment of Non-Financial Asset

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of investment properties, and bank premises, furniture, fixtures and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that investment properties and bank premises, furniture, fixtures and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In both years, Management determined that there was no indication of impairment that occurred on its investment properties.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General risk management principles

The Bank's financial instruments comprise cash and cash equivalents, investment securities at amortized cost, loans and other receivables, other assets, and other financial liabilities such as deposit liabilities, and other accrued and other liabilities to finance the Bank's operations.

In Philippine Peso

The main risks arising from the Bank's financial instruments are credit risk, market risk, liquidity risk and operation risk. The management reviews and agrees on policies for managing each of these risks and they are summarized below.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	Notes		2022		2021
Financial assets at amortized cost					
Cash on hand	8	₱	**22,970,375**	₱	10,138,168
Due from BSP	8		**750,922,043**		486,615,737
Due from other banks	8		**26,024,250**		65,551,911
Investment securities at amortized cost	9		**41,064,924**		41,064,924
Loans and other receivables – net	10		**107,952,847**		103,389,910
Other assets*	13		**1,092,482**		1,875,024
		₱	**950,026,921**	₱	708,635,674
Financial liabilities at amortized cost					
Deposit liabilities	14	₱	**710,067,963**	₱	517,947,139
Accrued and other liabilities**	15		**156,919,253**		115,274,135
		₱	**866,987,216**	₱	633,221,274

**excluding non-financial assets amounting to ₱13,452,401 and ₱1,762,991, respectively and net of allowance of ₱4,249,352 and ₱3,448,968 in 2022 and 2021, respectively.*
***excluding non-financial liabilities amounting to ₱1,798,785 and ₱260,595, respectively.*

6.02 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

On-going credit evaluation is performed on the financial condition of loans and other receivable and, where appropriate, obtaining additional collateral is requested to cover the loans.

The Bank does not have significant credit risk exposure to any single counterparty or any Bank of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities.

Also, the Bank manages its credit risk by depositing its cash with high credit quality banking institutions.

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk.

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6.02.01 Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of the Bank as of December 31, 2022 and 2021, without considering the effects of credit risk mitigation techniques.

	Notes	2022	2021
Due from BSP	8	₱ **750,922,043**	₱ 486,615,737
Due from other banks	8	**26,024,250**	65,551,911
Investment securities at amortized cost	9	**41,064,924**	41,064,924
Loans and other receivables – gross*	10	**133,295,987**	119,645,449
Other assets**	13	**5,341,834**	5,323,992
		₱ **956,649,038**	₱ 718,202,013

**gross of allowance for credit losses amounting to ₱25,343,140 and ₱16,255,539 in 2022 and 2021, respectively.*
***excluding non-financial assets amounting to ₱13,452,401 and ₱1,762,991, respectively and gross of allowance of ₱4,249,352 and ₱3,448,968 in 2022 and 2021, respectively.*

6.02.02 Risk Concentration of the Maximum Exposure to Credit Risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Bank's financial strength and undermine public confidence.

6.02.03 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2022 and 2021.

2022	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	750,922,043	–	–	750,922,043
Due from other banks	26,024,250	–	–	26,024,250
Investment securities at amortized cost	41,064,924	–	–	41,064,924
Loans and other receivables*	76,614,335	49,270,766	7,410,886	133,295,987
Other assets**	1,092,482	–	–	1,092,482
	895,718,034	**49,270,766**	**7,410,886**	**952,399,686**

2021				
Due from BSP	486,615,737	–	–	486,615,737
Due from other banks	65,551,911	–	–	65,551,911
Investment securities at amortized cost	41,064,924	–	–	41,064,924
Loans and other receivables*	71,743,189	40,026,146	7,876,114	119,645,449
Other assets**	1,875,024	–	–	1,875,024
	666,850,785	40,026,146	7,876,114	714,753,045

**gross of allowance for credit losses amounting to ₱25,343,140 and ₱16,255,539 in 2022 and 2021, respectively.*
***excluding non-financial assets amounting to ₱13,452,401 and ₱1,762,991, respectively and net of allowance of ₱4,249,352 and ₱3,448,968 in 2022 and 2021, respectively.*

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other neither past due nor impaired accounts are loans and other receivables and investment securities which have a very remote likelihood of default and have consistently exhibited good paying habits.

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Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Impaired Loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages.

6.02.04 Aging Analysis

An aging analysis of the Bank's loans and other receivable as of December 31, 2022 and 2021 are as follows:

		2022	2021
Outstanding receivables:			
Current accounts	₱	**76,614,335**	71,743,189
Past due accounts:			
1 – 30 days past due		**3,967,904**	230,618
31 – 60 days past due		**1,845,758**	690,867
61 – 90 days past due		**28,166,119**	6,234,486
91 – over 180 days past due		**22,701,871**	40,746,289
	₱	**133,295,987**	119,645,449

6.02.05 Measurement of ACL

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

Individually Assessed Loans and Other Credit Exposures

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments, as follows:

   For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

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For secured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

**When there is imminent possibility of foreclosure and expectation of loss. ACL shall be increased to 25%*

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 143 (Credit Classification and Provisioning) shall be provided with ACL, as follows:

Classification	Minimum ACL	Stage
Especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as "Substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty-five percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Collectively Assessed Loans and Other Credit Exposure

1. Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

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2. Loans and other credit exposures with unpaid principal and/ or interest shall be classified and provided with ACL based on the number of days of missed payments, as follows:

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/2nd restructuring	Loss	100%	3

**PAR for microfinance loans*

For secured loans and other credit accommodations:

No. of days unpaid/with missed payments*	Classification	ACL (%) Other types of collateral	ACL (%) Security by real estate	Stage
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances is determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

6.03 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements.

The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility. In the management of liquidity risk, the Bank monitors and maintains a level of cash and due from other banks deemed adequate by the Management to finance the Bank's operations.

As of December 31, 2022 and 2021, minimum liquidity ratio of the Bank is 112.40% and 123.40%, respectively.

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The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2022 and 2021 based on undiscounted contractual cash flows.

2022

	On Demand	Due within 1 year	Due beyond 1 year but not more than 5 years	Due beyond 5 years but not more than 15 years	Total
Financial Assets:					
Cash on hand	₱ 22,970,275	₱ –	₱ –	₱ –	₱ 22,970,275
Due from BSP	750,922,043	–	–	–	750,922,043
Due from other banks	15,659,862	10,364,388	–	–	26,024,250
Investment securities at amortized cost	–	–	41,064,924	–	41,064,924
Loans and other receivables*	15,137,967	5,988,286	29,937,642	82,232,092	133,295,987
Other assets**	5,341,834	–	–	–	5,341,834
	₱ 810,031,981	**₱ 16,352,674**	**₱ 71,002,566**	**₱ 82,232,092**	**₱ 979,619,313**
Financial Liabilities:					
Deposit liabilities	₱ 641,924,567	₱ 8,109,626	₱ 300,000	₱ 59,733,770	₱ 710,067,963
Accrued and other liabilities***	156,919,253	–	–	–	156,919,253
	₱ 798,843,820	**₱ 8,109,626**	**₱ 300,000**	**₱ 59,733,770**	**₱ 866,987,216**

*gross of allowance for credit losses amounting to ₱25,343,140 in 2022.
**excluding non-financial assets amounting to ₱13,452,401 and gross of allowance of ₱4,249,352 in 2022.
***excluding non-financial liabilities amounting to ₱1,798,785 in 2022.

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2021	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Year But Not More Than 15 Years	Total
Financial Assets:					
Cash on hand	₱ 10,138,168	₱ –	₱ –	₱ –	₱ 10,138,168
Due from BSP	486,615,737	–	–	–	486,615,737
Due from other banks	65,551,911	–	–	–	65,551,911
Investment securities at amortized cost	–	900,000	40,164,924	–	41,064,924
Loans and other receivables*	55,116,631	5,480,862	20,948,642	38,099,314	119,645,449
Other assets**	5,323,992	–	–	–	5,323,992
	₱ 622,746,439	₱ 6,380,862	₱ 61,113,566	₱ 38,099,314	₱ 728,340,181
Financial Liabilities:					
Deposit liabilities	₱ 512,626,603	₱ 1,123,228	₱ 4,197,308	₱ –	₱ 517,947,139
Other liabilities***	115,274,135	–	–	–	115,274,135
	₱ 627,900,738	₱ 1,123,228	₱ 4,197,308	₱ –	₱ 633,221,274

gross of allowance for credit losses amounting to ₱16,255,539 in 2021.
***excluding non-financial assets amounting to ₱1,762,991 and gross of allowance of ₱3,448,968 in 2021.*
****excluding non-financial liabilities amounting to ₱260,595 in 2021.*

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Cash on hand, Due from BSP, Due from other banks, Other assets, Accrued and other liabilities
The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

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

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

Fair Value Hierarchy
In accordance with PFRS 13, the fair value of financial assets and 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 financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There were neither transfers between Levels 1 and 2 instruments in both years.

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

Fair Value Measurement for Non-financial Assets
The fair value of the Bank's land classified under Investment Properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In Philippine Peso

The fair value of investment properties for the years ended December 31, 2022 and 2021 amounted to ₱3,767,200 and ₱4,067,200, respectively, as disclosed in Note 12, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

		2022		2021
Cash on hand	₱	**22,970,375**	₱	10,138,168
Due from BSP		**750,922,043**		486,615,737
Due from other banks		**26,024,250**		65,551,911
	₱	**799,916,668**	₱	562,305,816

Cash on hand represents actual cash in vault – local currencies, and those in possession of the cashier and the tellers as of December 31, 2022 and 2021.

Due from BSP is the deposit balance maintained with the Bangko Sentral ng Pilipinas to meet reserve requirements. During 2022 and 2021, the Bank has satisfactorily complied with the said reserve requirement. The Bank also has TDF deposits with the BSP which earn interest at rates ranging from 1.75% to 6.25% in 2022 and 2021.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Peso denominated deposits earn interest at annual rates ranging from 0.01% to 32.48% in 2022 and 2021.

Interest earned on deposits on local banks and deposit with BSP amounted to ₱13,139,463 and ₱4,968,991 in 2022 and 2021, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

These accounts consist of investment in Land Bank of the Philippines and Development Bank of the Philippines in the form of treasury bills.

Movements in the account are disclosed below:

		2022		2021
Balance at January 1	₱	**41,064,924**	₱	32,274,649
Acquisitions		**–**		10,000,000
Maturities		**–**		(1,209,725)
Balance, December 31	₱	**41,064,924**	₱	41,064,924

Interest rate ranges from 2.0% to 3.0% in 2022 and 2021 with maturity ranging from one (1) year to five (5) years.

The Bank assesses at each financial reporting date whether there is an indication that an investment may be impaired and believes that there is no such indication as of December 31, 2022 and 2021.

No impairment was recognized as of and for the years ended December 31, 2022 and 2021.

Interest earned amounted to ₱1,074,176 and ₱1,040,953 for the years ended December 31, 2022 and 2021, respectively.

In Philippine Peso

10. LOANS AND OTHER RECEIVABLES – net

The Bank's loan receivables consist of:

		2022		2021
Current loans	₱	**76,582,258**	₱	71,743,189
Past due loans		**56,681,922**		47,902,260
Total loans receivable		**133,264,180**		119,645,449
Accrued interest receivable		**31,807**		–
		133,295,987		119,645,449
Allowance for credit losses – loans receivable (Note 19)		**(25,343,140)**		(16,255,539)
Total loans and other receivables – net	₱	**107,952,847**	₱	103,389,910

As of December 31, 2022 and 2021, no loans receivable was used as collateral for liabilities.

Total earned interest amounted to ₱19,194,224 and ₱17,423,205 as of December 31, 2022 and 2021, respectively.

Allowance for credit losses is comprised of the following:

		2022		2021
Specific allowance for probable losses	₱	**24,900,703**	₱	15,410,181
General loan loss provision		**442,437**		845,358
	₱	**25,343,140**	₱	16,255,539

The allowance for credit losses which includes both specific and general loan loss reserves, represents management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector. The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans. Accordingly, a specific valuation allowance for probable losses was provided on regular loans based on the following schedule:

Classification of risk assets	Required valuation allowance
Loans especially mentioned	5%
Substandard – secured	10%
Substandard – unsecured	25%
Doubtful	50%
Loss	100%

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For micro-finance portfolio, the specific allowances are computed based on portfolio at risk. Portfolio at risk (PAR) refers to loan outstanding with one day amortization missed payment. Specific allowance based on PAR follows:

Number of days PAR	Required allowance
1 – 30 days	2%
31 – 60 days	25%
61– 90 days	50%
91 days and over	100%

For unclassified loans whether regular or micro-finance, a general loan loss provision equivalent to 1% of the total loan portfolio is provided.

The Bank loan loss methodology is consistent with Appendix 15 or MORB.

Details of the Bank's unbooked allowance for credit losses as of December 31, 2022 and 2021 are disclosed below:

		2022		2021
Required allowance	₱	**29,061,536**	₱	16,255,539
Booked allowance		**(25,343,140)**		(16,255,539)
	₱	**3,718,396**	₱	–

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

BSP Manual of Regulations for Banks, Sec. 304, as amended by BSP Circular 941, defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

In Philippine Peso

10.02 Non-Performing Loans

BSP Circular 941 defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

As of December 31, 2022 and 2021, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2022	2021
Total Non-performing loans	₱ **50,868,260**	₱ 40,746,289
Less: Non-performing loans covered by allowance for credit losses	**(22,171,552)**	(14,312,051)
	₱ **28,696,708**	₱ 26,434,238

Information regarding the Bank's non-performing loans (based on Circular 941) are as follows:

	2022	2021
Ratio of gross NPLs to gross TLP (%)	**38.17%**	34.06%
Ratio of net NPLs to gross TLP (%)	**21.53%**	22.09%
Ratio of total allowance for credit losses to gross NPLs (%)	**49.82%**	39.89%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**48.95%**	37.82%

In Philippine Peso

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFFE) – net

The carrying amounts of the Bank's BPFFE are as follows:

2022	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	₱ 12,427,258	₱ 46,506,626	₱ 1,170,697	₱ 5,780,122	₱ 65,884,703
Additions	95,216	131,425	780,000	–	1,006,641
Write-off	(5,300)	(8,352,855)	–	–	(8,358,155)
Adjustments	–	(140,870)	–	–	(140,870)
At December 31	**12,517,174**	**38,144,326**	**1,950,697**	**5,780,122**	**58,392,319**
Accumulated Depreciation:					
At January 1	4,264,165	25,042,198	630,312	3,873,723	33,810,398
Depreciation (Note 18)	1,272,790	4,950,721	291,014	1,291,241	7,805,766
Write-off	(5,300)	(8,352,855)	–	–	(8,358,155)
Adjustments	324,630	(512,479)	58,535	–	(129,314)
At December 31	**5,856,285**	**21,127,585**	**979,861**	**5,164,964**	**33,128,695**
Carrying Amount	**₱ 6,660,889**	**₱ 17,016,741**	**₱ 970,836**	**₱ 615,158**	**₱ 25,263,624**

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2021	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	₱ 12,427,258	₱ 51,080,678	₱ 1,257,417	₱ 5,780,122	₱ 70,545,475
Additions	–	568,128	–	–	568,128
Adjustments	–	(5,142,180)	(86,720)	–	(5,228,900)
At December 31	12,427,258	46,506,626	1,170,697	5,780,122	65,884,703
Accumulated Depreciation:					
At January 1	3,378,284	26,964,646	302,404	2,582,482	33,227,816
Depreciation (Note 18)	779,702	3,487,160	402,958	1,291,241	5,961,061
Adjustments	106,179	(5,409,608)	(75,050)	–	(5,378,479)
At December 31	4,264,165	25,042,198	630,312	3,873,723	33,810,398
Carrying Amount	₱ 8,163,093	₱ 21,464,428	₱ 540,385	₱ 1,906,399	₱ 32,074,305

Based on the management's assumptions, which is based on the recoverable amount of the properties, no impairment loss is required to be recognized both in 2022 and 2021.

No properties were used as collateral for liabilities as at December 31, 2022 and 2021.

All additions in 2022 and 2021 were paid in cash.

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

In Philippine Peso

The following are the lease agreements entered into by the Bank and outstanding as of December 31, 2022 and 2021:

Location of leased property	Lease Term: Start of term	Lease Term: End of term	Lease Payment	Escalation Clause
Subic bay, Olangapo City	09/01/2018	08/31/2023	115,200	None
Parañaque, Metro Manila	01/01/2017	12/31/2022	14,000	None

The lease contracts are renewable upon such terms and conditions mutually agreed by the both parties prior to expiration. The leased assets are being depreciated based on useful life of the leased asset or remaining term of the lease, whichever is shorter.

12. INVESTMENT PROPERTIES – net

This investment properties pertains to real properties, such as land and building held by the Bank for capital appreciation.

Movement of investment properties as follows:

2022	**Land**	**Building**	**Total**
Cost:			
Ending balance	**₱ 1,251,877**	**₱ 702,056**	**₱ 1,953,933**
Accumulated depreciation:			
Beginning balance	–	690,354	690,354
Depreciation (Note 18)	–	11,702	11,702
Ending balance	**–**	**702,056**	**702,056**
Balance, December 31	**₱ 1,251,877**	**₱ –**	**₱ 1,251,877**

2021	Land	Building	Total
Cost:			
Ending balance	₱ 1,251,877	₱ 702,056	₱ 1,953,933
Accumulated depreciation:			
Beginning balance	–	620,149	620,149
Depreciation (Note 18)	–	70,205	70,205
Ending balance	–	690,354	690,354
	₱ 1,251,877	₱ 11,702	₱ 1,263,579

The Bank acquired its investment properties from foreclosure of properties.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is no indication that an impairment loss has occurred on its investment properties.

All real and other properties acquired are accounted for as investment properties.

No amount of investment properties of the Bank has been pledged to secure general banking facilities granted to the Bank.

In Philippine Peso

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

The fair value of investment properties for the years ended December 31, 2022 and 2021 amounted to ₱3,767,200 and ₱4,067,200, respectively, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

13. OTHER ASSETS

This account consists of:

		2022		2021
Accounts receivables	₱	**5,341,834**	₱	5,323,992
Stationeries and supplies on hand		**828,876**		862,931
Prepaid expenses		**704,922**		781,330
Advances to others		**11,918,603**		118,730
		18,794,235		7,086,983
Allowance for losses – accounts receivable (Note 19)		**(4,249,352)**		(3,448,968)
	₱	**14,544,883**	₱	3,638,015

Account receivables pertain to the unliquidated cash advance of its employees and related party.

Prepaid expenses include the remaining unexpired portion of the cost of insurance on fire, MSPR, cash-in vault and fidelity bonds of employees.

Advances to other includes advances to Infrasoft, employees and suppliers.

14. DEPOSIT LIABILITIES

The Bank's deposit liabilities as of December 31 consist of the following:

		2022		2021
Savings deposits	₱	**497,263,761**	₱	414,682,194
Demand deposits		**201,928,905**		97,442,585
Time deposits		**10,875,297**		5,822,360
	₱	**710,067,963**	₱	517,947,139

Savings deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Time deposits have different maturity dates maximum of which is one (1) year term/maturity and bear different interest rates based on the amount of deposits and term of placements. Time deposits with term of five (5) years or more are exempt from tax in accordance with BIR regulation.

Interest rates on savings deposits ranges from 0.25% to 1.0% per annum and interest on time deposit ranges from 0.25% to 5.0% per annum for time deposits, both in 2022 and 2021.

In Philippine Peso

Interest expense on deposit liabilities charged to statements of comprehensive income in 2022 and 2021 amounted to ₱5,183,693 and ₱4,035,958, respectively.

The Bank is in compliance with these regulations as the Bank's Due from BSP account amounted to ₱750,922,043 and ₱486,615,737 as of December 31, 2022 and 2021, respectively, as disclosed in Note 8, and is enough to cover the required reserve requirements.

15. ACCRUED AND OTHER LIABILITIES

This account consists of:

	2022	2021
Accounts payable	₱ 156,242,727	₱ 113,177,553
Accrued taxes and other expenses payable	939,643	–
Withholding tax payable	810,768	220,202
Lease liability	676,526	2,096,582
SSS, Philhealth, & Pag-ibig contribution payable	48,374	40,393
	₱ 158,718,038	₱ 115,534,730

Account payable pertains to remittance in the electronic money issuers of the Bank and other expenses incurred but not yet paid.

The details of the Bank's lease liabilities and their carrying amount as of December 31, 2022 and 2021 are as follows:

	2022	2021
Beginning balance, January 1,	₱ 2,096,582	₱ 3,408,334
Interest	140,488	238,648
Payments	(1,560,544)	(1,550,400)
Total	₱ 676,526	₱ 2,096,582

The breakdown of lease liabilities as to current and non-current is as follows:

	December 31, 2022	December 31,2021
Current	₱ 676,526	₱ 1,420,056
Non-current	–	676,526
Total	₱ 676,526	₱ 2,096,582

The maturity analysis of lease liabilities as at December 31, 2022 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 743,456	₱ 66,930	₱ 676,526

In Philippine Peso

The maturity analysis of lease liabilities as at December 31, 2021 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 1,560,544	₱ 140,488	₱ 1,420,056
1 – 2 years	743,456	66,930	676,526
Total	₱ 2,304,000	₱ 207,418	₱ 2,096,582

16. EQUITY

16.01 Ordinary Shares

Shown below are the details on the movement of ordinary shares.

	2022		2021	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**3,000,000**	**₱ 300,000,000**	3,000,000	₱ 300,000,000
Subscribed and paid up:				
Balance, January 1	**681,175**	**₱ 68,117,500**	681,175	₱ 68,117,500
Issuances	–	–	–	–
Balance, December 31	**681,175**	**₱ 68,117,500**	681,175	₱ 68,117,500

16.02 Retained Earnings – free

The table below shows the movement in the Bank's retained earnings free as of December 31, 2022 and 2021:

	2022	2021
Beginning	**₱ 41,941,677**	₱ 29,581,692
Profit for the year	**10,926,415**	12,359,985
	₱ 52,868,092	₱ 41,941,677

The adjustment pertains to additional provision for retirement.

16.03 Capital Management Objectives, Policies, and Procedures

The primary objectives of the Bank's capital management are to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to shareholders.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

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In Philippine Peso

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

Risk assets consists 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.
As of December 31, 2022 and 2021, the Bank is in compliance with the current banking regulation.

The regulatory capital is analysed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock
   ii. surplus,
   iii. surplus reserves, and
   iv. undivided profits

b. Tier 2 Capital includes:
   i. general loan loss provision

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

Information regarding the Bank's "unimpaired capital" as of December 31, 2022 and 2021 is shown below.

		2022		2021
Core Tier 1 Capital – gross	₱	**120,985,592**	₱	110,059,177
Less: Regulatory adjustments to Core Tier 1		**–**		–
Core Tier 1 Capital – net		**120,985,592**		110,059,177
Add: Hybrid Tier 1		**–**		–
Tier 1 Capital		**120,985,592**		110,059,177
Tier 2 Capital		**442,437**		845,358
Total qualifying capital	₱	**121,428,029**	₱	110,904,535
Total risk-weighted assets	₱	**227,802,140**	₱	257,728,421
Tier 1 Capital ratio		**53.11%**		42.70%
Total capital adequacy ratio		**53.30%**		43.03%

In Philippine Peso

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2020 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk-weighted assets.

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as Tier 1 Capital over total assets, is 12.22% and 14.80%, as of December 31, 2022 and 2021, respectively.

16.04 Regulatory Relief from Compliance with New Minimum Capitalization Requirements Under Circular No. 854.

Monetary Board, in it's resolution no. 127 date January 25, 2018, approved the request of the Bank for grant of regulatory relief from compliance with new minimum capital requirement of ₱200 million under circular 854 dated October 29, 2014 subject to the following conditions:

a. The Bank shall maintain a minimum capital level equivalent to its adjusted capital of ₱64.1 million, and shall continue to comply with the required minimum capital adequacy ratio (CAR) of 10%. Should the Bank's minimum capital or CAR fall below minimum of ₱64.1 million and 10% required capital, Bank's stockholder shall immediately infuse additional capital in order to comply therewith;
b. Bank shall not be granted any special banking authority (such as acceptance of demand deposit and negotiable order of withdrawal accounts; and engaging in quasi-banking function) nor shall it be allowed to established new branches; relocate its head office in an area of higher classification; convert to higher category bank; and engage in other activities/ transactions requiring compliance with minimum capitalization under circular 854; and
c. The Bangko Sentral ng Pilipinas reserves the right to require the Bank to raise additional capital when deemed necessary vis-à-vis Bank's operations and risk profile.

17. OTHER OPERATING INCOME

The account is composed of the following:

		2022		2021
Fees and commission income	₱	**9,789,865**	₱	6,026,673
Remittance services fees		**5,964,927**		6,861,050
Maintenance fees		**1,737,448**		1,784,833
ATM services fees		**1,110,628**		1,248,908
Recovery on charged off assets		**149,150**		388,445
Miscellaneous income		**1,282,050**		1,855,160
	₱	**20,034,068**	₱	18,165,069

Miscellaneous income pertains to fees and commission income earned by the Bank from service charge on loans, deposits below maintaining balance and on cancellation of certificates and appraisal fees.

In Philippine Peso

18. OPERATING EXPENSES

The account is composed of the following:

	2022	2021
Compensation and fringe benefits	₱ **9,981,755**	₱ 8,565,184
Depreciation and amortization	**7,817,468**	6,031,266
Insurance – PDIC	**1,878,970**	486,136
Management and other professional fees	**1,417,290**	1,067,307
Information technology expenses	**1,324,862**	1,153,526
Security, clerical, messengerial and janitorial services	**765,539**	885,250
Power, light and water	**573,662**	546,787
Repairs and maintenance	**485,205**	231,298
Fees and commissions	**402,469**	893,383
Stationery and supplies used	**347,674**	251,967
Rent expense	**290,955**	188,614
Representation and entertainment	**208,282**	51,902
Membership fees and dues	**172,088**	200,572
Fuel and lubricants	**152,808**	112,451
Interest expense – lease liability	**140,488**	238,648
Traveling expenses	**119,772**	55,796
Taxes and licenses	**75,454**	8,030
Postage, telephone, cables and telegrams	**75,076**	219,410
Supervision fees	**60,646**	48,308
Periodicals and magazines	**57,000**	65,350
Fines and penalties	**43,521**	3,000
Insurance expenses – others	**37,466**	67,259
Donations and charitable contributions	**25,820**	–
Documentary stamps used	**22,800**	31,650
Advertising and publicity	**8,142**	1,275
Litigation expense	**–**	616,254
Miscellaneous expenses	**455,900**	310,488
	₱ **26,941,112**	₱ 22,331,111

Compensation and other benefits are comprised of the following:

	2022	2021
Salaries and wages	₱ **8,809,772**	₱ 7,542,224
Mandatory payables	**672,136**	553,843
Director's fee	**492,909**	452,109
Fringe benefits to officers and employees	**6,938**	17,008
	₱ **9,981,755**	₱ 8,565,184

Breakdown of depreciation expense is disclosed below:

	Notes	2022	2021
Bank premises, furniture, fixture and equipment	11	₱ **7,805,766**	₱ 5,961,061
Investment properties	12	**11,702**	70,205
		₱ **7,817,468**	₱ 6,031,266

In Philippine Peso

19. ALLOWANCE FOR CREDIT LOSSES

The movement of account is as follows:

	Loans and other receivables (Note 10)	Other Assets (Note 13)	Total
Balance, December 31, 2020	**14,036,324**	**3,448,968**	**17,485,292**
Provision	2,264,211	–	2,264,211
Reversal	(44,996)	–	(44,996)
Balance, December 31, 2021	**16,255,539**	**3,448,968**	**19,704,507**
Provision	9,087,644	800,384	9,888,028
Write-off	(43)	–	(43)
Balance, December 31, 2022	**25,343,140**	**4,249,352**	**29,592,492**

20. INCOME TAXES

Section 12 (c) of Republic Act No. 7227, states that no taxes, local and national shall be imposed to the businesses and enterprise within the Subic Special Economic Zone. In lieu of paying taxes three percent (3%) of the gross income earned shall be remitted to the national Government, one percent (1%) each to the local government units affected by the declaration of the zone in proportion to their population area, and other factors. In addition, there is hereby established a development fund of one percent (1%) of the gross income earned to be utilized for the development of municipalities outside the City of Olongapo and the Municipality of Subic, and other municipalities contiguous to the base area.

In case of conflict between national and local laws with respect to the tax exemption privileges in the Subic Special Economic Zone, the same shall be resolve in favor of the latter.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 Income Taxes. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

20.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2022		2021
Income tax expense – current	₱	**502,683**	₱	606,953

In Philippine Peso

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2022 and 2021 is as follows:

		2022		2021
Subject to special tax rate of 5%:				
Gross income	₱	**1,213,365**	₱	907,450
Income tax effects of:				
Interest income subject to final tax		**(710,682)**		(300,497)
	₱	**502,683**	₱	606,953

20.02 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.
Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
  - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
  - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
  - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
  - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
  - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

In Philippine Peso

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event.

21. RELATED PARTY TRANSACTIONS

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among the reporting entities, which are under common control with the reporting enterprise, or between, and/or among the reporting entities and its key management personnel, directors, or its shareholders.

There are transactions and arrangements between the Bank and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements.

The Bank have related party transactions with Pacific Ace Forex HK Ltd. as of and for the years ended December 31, 2022 and 2021.

Account	Terms and conditions	Transactions/Volume 2022	2021	Outstanding Balance 2022	2021
Pacific Ace Forex HK Ltd.					
Nature of relationship: Owned by Stockholder					
Accounts receivables	Unsecured, non-interest bearing No impairment	**6,980,230**	6,828,200	**509,210**	638,440

This account consists of non-interest-bearing receivables to affiliate for the commission on remittance transactions. This amount is unsecured and collectible on the following month.

The summary of Bank significant transactions with its related parties as of and for the years ended December 31, 2022 and 2021.

2022

Category	**Amount of Transactions**	**Outstanding Balances**	**Terms**	**Conditions**
DOSRI loans	**₱ (469,028)**	**₱ 5,445,342**	Payable on installment, interest-bearing, cash-settled	Secured

2021

Category	Amount of Transactions	Outstanding Balances	Terms	Conditions
DOSRI loans	₱ (482,496)	₱ 5,914,370	Payable on installment, interest-bearing, cash-settled	Secured and unsecured

The General Banking Act and BSP regulations limit the amount of loans to each Directors, officers, shareholders and related interest (DOSRI).

a) The individual ceiling for credit accommodation of a rural bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodation to each of the Bank's DOSRI shall not exceed thirty percent (30%) of his total credit accommodations.

In Philippine Peso

b) The aggregate ceiling for credit accommodation whether direct or indirect, to DOSRI of a cooperative bank shall not exceed fifteen percent (15%) of the total loan portfolio of the Bank or tis combined capital accounts met of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of DOSRI shall not exceed thirty percent (30%) of the aggregate ceiling or outstanding direct/indirect credit accommodation thereto, whichever is lower.

2022		**DOSRI Loans**		**Related Party Loans (Inclusive of DOSRI Loans)**
Total outstanding DOSRI Loans	₱	**5,445,342**	₱	**5,445,342**
Percent of DOSRI accounts to total loans		**4.09%**		**4.09%**
Percent of unsecured DOSRI accounts to DOSRI accounts		**0.00%**		**0.00%**
Percent of past due DOSRI accounts to total DOSRI accounts		**0.00%**		**0.00%**
Percent of nonperforming DOSRI accounts to total DOSRI accounts		**0.00%**		**0.00%**

2021		DOSRI Loans		Related Party Loans (Inclusive of DOSRI Loans)
Total outstanding DOSRI Loans	₱	5,914,370	₱	5,914,370
Percent of DOSRI accounts to total loans		4.94%		4.94%
Percent of unsecured DOSRI accounts to DOSRI accounts		0.00%		0.00%
Percent of past due DOSRI accounts to total DOSRI accounts		0.00%		0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts		0.00%		0.00%

The Bank assessed that DOSRI loans are impaired as of December 31, 2022 and 2021. Total allowance for credit losses recognized as of December 31, 2022 and 2021 amounted to ₱54,453 and ₱59,144.

21.01 Real Estate Transaction with DOSRI

The Bank leases its office from Pacific Ace Subic Corporation and Pacific Ace Management Corporation with term of 5-year contract for a monthly rental ranging from ₱14,000 to ₱134,415 with escalation clause as determined by both parties and paid a total amount of ₱1,674,657 and ₱176,842, respectively in 2022 and ₱1,562,172 and ₱176,842, respectively in 2021. The Bank paid its water expense to Pacific Ace Subic Corporation as lease a total amount of ₱120,490 and ₱17,182 in 2022 and 2021, respectively.

21.02 Remuneration of Key Management Personnel

The key management compensation during as of December 31, 2022 and 2021 is composed of the following:

		2022		2021
Short-term employee benefits	₱	**1,041,667**	₱	458,717
Post-employment benefits		–		–
	₱	**1,041,667**	₱	458,717

In Philippine Peso

22. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following shows the movement of financial liabilities.

			Non-cash changes				
2022	**January 1**	**Cash flows**	**Interest expense**	**Foreign exchange**	**Fair value changes**	**Others**	**December 31**
Lease liability	₱ 2,096,582	₱ (1,560,544)	₱ 140,488	₱ –	₱ –	₱ –	₱ 676,526

			Non-cash changes				
2021	January 1	Cash flows	Interest expense	Foreign exchange	Fair value changes	Others	December 31
Lease liability	₱ 3,408,334	₱ (1,550,400)	₱ 238,648	₱ –	₱ –	₱ –	₱ 2,096,582

Cashflow in lease liability includes payment of interest expense.

23. RETIREMENT BENEFIT OBLIGATION

Under Republic Act (RA) No. 7641, otherwise known as the Retirement Pay Law that took effect on January 17,1993, the Bank is required to provide minimum retirement benefits to qualified retiring employees.

By the end of 2022 and 2021, the Company has not yet established a retirement fund for its regular employees and no amount of retirement benefit obligation has been accrued because the Company's management deemed that the amount of retirement obligation as of December 31, 2022 and 2021 is not significant.

24. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of past event, or when it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Bank's contingent accounts arising from off-balance sheet items are disclosed in Note 28.

25. EVENTS AFTER THE REPORTING DATE

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

26. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors on April 13, 2023.

27. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS NO. 15 – 2010

Revenue Regulations (RR) No. 21–2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below are the additional information required by RR 15–2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

27.01 Gross Receipts Tax

The Bank is exempt from gross receipts tax as of December 31, 2022 and 2021.

In Philippine Peso

27.02 Withholding Taxes

Withholding taxes paid and accrued during the year are as follows:

2022		**Paid**		**Accrued**		**Total**
Expanded withholding tax	₱	126,953	₱	10,988	₱	137,941
Final withholding tax		236,157		780,443		1,016,600
Withholding tax on compensation		124,288		19,337		143,625
	₱	**487,398**	**₱**	**810,768**	**₱**	**1,298,166**

2021		Paid		Accrued		Total
Expanded withholding tax	₱	120,359	₱	10,730	₱	131,089
Final withholding tax		602,367		199,269		801,636
Withholding tax on compensation		95,272		10,203		105,475
	₱	817,998	₱	220,202	₱	1,038,200

27.03 Taxes and Licenses

Taxes and licenses paid and accrued during the year are as follows:

		2022		2021
National taxes:				
Annual registration – BIR	₱	**516**	₱	484
Local taxes:				
Registration of vehicle		**7,441**		5,944
Registration – SBMA		**3,098**		1,602
Others		**64,399**		–
	₱	**75,454**	**₱**	8,030

27.04 Deficiency Tax Assessments and Tax Cases

The Bank has no deficiency tax assessments for the years ended December 31, 2022 and 2021.

28. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

28.01 Basic Quantitative Indicators of Financial Performance

The following basic ratio measures the financial performance of the Bank:

	2022	2021
Return on average equity	**9.46%**	11.90%
Return on average assets	**1.26%**	1.77%
Net interest margin	**3.48%**	3.00%
Debt-to-equity ratio	**7.18:1**	5.76:1
Capital adequacy ratio	**53.30%**	43.03%
Leverage ratio	**12.22%**	14.80%

In Philippine Peso

28.02 Capital Instruments Issued

Description of capital instrument issued by the Bank is disclosed in Note 16.

28.03 Significant Credit Exposures

Disclosures as to industry/economic sector are as follows (net of unamortized discount):

	2022			2021		
	Amount	**% as to industry**	**% as to Tier 1**	Amount	% as to industry	% as to Tier 1
Wholesale and retail trade, repair of motor, vehicles, motorcycles	**57,227,257**	**42.94**	**47.30**	6,876,195	5.75	6.25
Real estate activities	**31,300,585**	**23.49**	**25.87**	28,174,414	23.55	25.60
Agriculture, forestry, and fishing	**15,369,512**	**11.53**	**12.70**	15,544,352	12.99	14.12
Loans to individuals primarily for personal use purposes	**11,434,117**	**8.58**	**9.45**	10,743,721	8.98	9.76
Arts, entertainment and recreation	**6,703,591**	**5.03**	**5.54**	21,793,159	18.21	19.80
Construction	**5,756,779**	**4.32**	**4.76**	31,343,842	26.20	28.48
Financial and insurance activities	**5,431,477**	**4.08**	**4.49**	–	–	–
Manufacturing	**27,508**	**0.02**	**0.02**	101,224	0.08	0.09
Transportation and storage	**13,354**	**0.01**	**0.01**	23,049	0.02	0.02
Education	**–**	**0.00**	**0.00**	5,045,493	4.22	4.58
Total	**133,264,180**	**100**		119,645,449	100	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital which is equivalent to ₱12,098,559 and ₱11,005,918, as of December 31, 2022 and 2021, respectively.

In 2022, the Bank is exposed to credit risk concentration on wholesale and retail trade, repair of motor, vehicles, motorcycles, more than 30% of the total loan portfolio. The Bank is exposed to credit risk concentration on wholesale and retail trade, repair of motor, vehicles, motorcycles, real estate activities, and agriculture, forestry, and fishing amounting to more than 10% of Tier 1 Capital.

In 2021, the Bank has no exposure to credit risk concentration more than 30% of the total loan portfolio. The Bank is exposed to credit risk concentration on real estate activities, agriculture, forestry, and fishing, arts, entertainment and recreation and construction amounting to more than 10% of Tier 1 Capital.

28.04 Breakdown of Total Loans

28.04.01 As to Security

Breakdown of loans as to secured and unsecured, and secured loans as to type of security are disclosed below:

	2022	2021
Secured by real estate mortgage	₱ **107,686,043**	₱ 91,945,770
Unsecured	**25,578,137**	27,699,679
	₱ **133,264,180**	₱ 119,645,449

In Philippine Peso

28.04.02 As to Status

Breakdown of loans as to performing and non-performing status per product is as follows:

2022	Performing	Non-performing	Total
Microfinance loans	₱ 50,190,161	₱ 20,489,790	₱ 70,679,951
Loans to individuals for housing purposes	8,863,446	14,774,514	23,637,960
Agrarian reform loans	6,196,658	7,044,483	13,241,141
Small enterprises	6,731,252	5,920,312	12,651,564
Salary-based general consumptions purposes	8,794,956	2,639,161	11,434,117
Medium enterprises	1,619,447	–	1,619,447
	₱ 82,395,920	**₱ 50,868,260**	**₱ 133,264,180**

2021	Performing	Non-performing	Total
Microfinance loans	₱ 26,534,487	₱ 19,275,236	₱ 45,809,723
Loans to individuals for housing purposes	21,793,159	5,920,312	27,713,471
Agrarian reform loans	13,355,525	6,044,118	19,399,643
Salary-based general consumptions purposes	8,375,362	2,368,359	10,743,721
Small enterprises	6,545,338	7,138,264	13,683,602
Medium enterprises	2,295,289	–	2,295,289
	₱ 78,899,160	₱ 40,746,289	₱ 119,645,449

28.05 Information on Related Party Loans

Information on related party loans is disclosed in Note 21.

28.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2022 and 2021, no loans receivable was used as a collateral for liabilities, as disclose in Note 10.

28.07 Contingencies and Commitments Arising from Off-balance Sheet Items

The following is a summary of the Bank's contingent accounts arising from off-balance sheet as describe in BSP Circular 1074 as of December 31, 2022 and 2021:

	2022	2021
Items held as collateral	₱ –	₱ 57
Items held for safekeeping	–	–
	₱ –	₱ 57

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