

INDEPENDENT AUDITORS' REPORT

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

Independent Member of
B K R International

Qualified Opinion

We have audited the financial statements of **PACIFIC ACE SAVINGS BANK, INC.** (the "Bank") which comprise the statements of financial position as of December 31, 2023 and 2022, 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 material accounting policies and other explanatory information.

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, 2023 and 2022, 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 4 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, 2023 and 2022, the Bank's total allowance on credit losses on loans and other receivables amounted to ₱26.55 million and ₱25.34 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, 2023 and 2022 have not been determined due to certain limitations.

The Bank has unbooked allowance for credit losses on loans receivable amounting to ₱3,157,842 and ₱3,718,396 as of December 31, 2023 and 2022, respectively, 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 years ended December 31, 2023 and 2022 will be reduced by ₱3,157,842 and ₱3,718,396, respectively, and capital adequacy ratio (CAR) as of December 31, 2023 and 2022 will be reduced to 44.05% and 52.53%, respectively.

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.

Alas Oplas & Co., CPAs

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.
- 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.

Alas Oplas & Co., CPAs

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, INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025

BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027

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. 100756665, issued on January 2, 2024, Makati City

April 19, 2024

Makati City, Philippines

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
In Philippine Peso

	Notes	2023	2022
ASSETS			
Cash on hand	8	17,311,783	22,970,375
Due from Bangko Sentral ng Pilipinas	8	538,245,583	750,922,043
Due from other banks	8	25,534,383	26,024,250
Investment securities at amortized cost	9	39,822,722	41,064,924
Loans and other receivables – net	10	118,355,037	107,952,847
Bank premises, furniture, fixtures and equipment – net	11	31,853,972	25,263,624
Investment properties – net	12	6,498,007	1,251,877
Other assets	13	16,749,059	14,544,883
TOTAL ASSETS		794,370,546	989,994,823
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	14	513,303,955	710,067,963
Income tax payable		20,381	223,230
Accrued and other liabilities	15	147,102,797	158,718,038
Total Liabilities		660,427,133	869,009,231
EQUITY			
Share capital	16	68,117,500	68,117,500
Retained earnings – free	16	65,825,913	52,868,092
Total Equity		133,943,413	120,985,592
TOTAL LIABILITIES AND EQUITY		794,370,546	989,994,823

See Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
In Philippine Peso

	Notes	2023	2022
INTEREST INCOME			
Due from BSP and other banks	8	24,827,237	13,139,463
Investment securities at amortized cost	9	1,070,000	1,074,176
Loans and other receivables	10	17,401,197	19,194,224
		43,298,434	33,407,863
INTEREST EXPENSE			
Deposit liabilities	14	(4,923,880)	(5,183,693)
		38,374,554	28,224,170
NET INTEREST INCOME		13,868,658	20,034,068
OTHER OPERATING INCOME	17		
		52,243,212	48,258,238
TOTAL OPERATING INCOME			
OPERATING EXPENSES	18	(32,048,994)	(26,941,112)
PROVISION FOR CREDIT LOSSES	19	(6,791,164)	(9,888,028)
		13,403,054	11,429,098
PROFIT BEFORE TAX			
INCOME TAX EXPENSE	20	(445,233)	(502,683)
		12,957,821	10,926,415
PROFIT			
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE INCOME		12,957,821	10,926,415

See Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
In Philippine Peso

	Share Capital (Note 16)	Retained Earnings – free (Note 16)	Total Equity
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
Profit	–	12,957,821	12,957,821
Balance at December 31, 2023	68,117,500	65,825,913	133,943,413

See Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
In Philippine Peso

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,403,054	11,429,098
Adjustments for:			
Interest income	8,9	(25,897,237)	(14,213,639)
Interest expense – lease liabilities	15	334,000	140,488
Depreciation	18	6,964,419	7,817,468
Provision for credit losses	19	6,791,164	9,888,028
Operating cash flows before working capital changes		1,595,400	15,061,443
Changes in operating assets and liabilities			
Increase in:			
Loans and other receivables		(22,107,547)	(13,650,581)
Other assets		(15,177,890)	(11,695,697)
Increase (decrease) in:			
Deposit liabilities		(196,764,008)	192,120,825
Accrued and other liabilities		(10,227,428)	44,603,364
Cash generated from (used in) operations		(242,681,473)	226,439,354
Interest received	8,9	25,897,237	14,213,639
Income tax paid		(648,082)	(474,956)
Net cash generated from (used in) operating activities		(217,432,318)	240,178,037
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from investment securities at amortized cost	9	1,242,202	–
Acquisition of bank premises, furniture, fixtures, and equipment	11	(912,989)	(1,006,641)
Net cash generated (used in) investing activities		329,213	(1,006,641)
CASH FLOWS FROM FINANCING ACTIVITY			
Payments for lease liabilities – principal and interest	15	(1,721,814)	(1,560,544)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(218,824,919)	237,610,852
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash on hand		22,970,375	10,138,168
Due from Bangko Sentral ng Pilipinas		750,922,043	486,615,737
Due from other banks		26,024,250	65,551,911
		799,916,668	562,305,816
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash on hand	8	17,311,783	22,970,375
Due from Bangko Sentral ng Pilipinas	8	538,245,583	750,922,043
Due from other banks	8	25,534,383	26,024,250
		581,091,749	799,916,668

See Notes to Financial Statements.

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, 2026.

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, 2023

The Bank applied for the first-time the following standards and amendments, which are effective for annual periods beginning on or after 1 January 2023, unless otherwise stated.

3.01.01 PFRS 17 Insurance Contracts

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

The overall objective of PFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. PFRS 17 is based on a general model, supplemented by:

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

The new standard had no impact on the Bank’s financial statements as the Bank does not have any contracts that meet the definition of an insurance contract under PFRS 17.

3.01.02 Amendments to PAS 1 Presentation of Financial Statements and PFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in PAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in PAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The amendments have had an impact on the Bank’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank’s financial statements.

3.01.03 Amendments to PAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. Following the amendments to PAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

The amendments had no impact on the Bank’s financial statements.

3.01.04 Amendments to PAS 12 Income Taxes—International Tax Reform—Pillar Two Model Rules

The amendments to PAS 12 have been introduced in response to the OECD’s BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

3.01.05 Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments to PAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

The amendments had no impact on the Bank's financial statements.

3.02 New and Amended Standards Issued But Not Yet Effective

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 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current

The amendments to PAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to PAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

3.02.02 Amendments to PAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

3.02.03 Amendments to PAS 7 Statement of Cash Flows and PFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to PAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, PFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

3.02.04 Amendment to PFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to PFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in PFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in PFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in PFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying PFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with PAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied PFRS 16.

3.03 Deferred Effectivity

3.03.01 Amendments to PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

4. MATERIAL 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022 the Bank did not assess the impact of ECL model that is in accordance with PFRS 9 due to certain limitations.

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, 2023 and 2022, 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, 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.

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

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

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. The Bank does not recognize any interest income for past due loans and receivables as the inflows of the economic benefits from these loans and receivables are uncertain.

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, 2023 and 2022 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

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 no 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 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.

5.01.08 Classifying Real and Other Properties Acquired (ROPA)

The Bank acquires properties in settlement of loans through foreclosure or dation in payment. These properties are recognized in accordance with Section 382 of the MORB, as follows:

1. Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
2. Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment", provided that these are held for use in the production or supply of goods or services, or for administrative purposes; and
3. PFRS 5 "Non-Current Assets Held for Sale" when the properties comply with the provisions of the standard.

Notwithstanding the above provisions, it is a regulatory expectation for the Bank to dispose these properties immediately.

5.01.09 Determining Method of Computing ECL

As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1011, BSP-supervised financial institutions with credit operations that may not economically justify adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the Manual of Regulations for Banks.

In 2023, following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement it was determined that the amount recognized as allowance based on Appendix 15 is reasonable.

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 ₱6,791,164 and ₱9,888,028 in 2023 and 2022, respectively, as disclosed in Note 19. Allowance for credit losses – loans receivables amounted to ₱26,556,436 and ₱25,343,140 as of December 31, 2023 and 2022, respectively, as disclosed in Note 10. Allowance for credit losses – accounts receivables amounted to ₱4,581,090 and ₱4,249,352 as of December 31, 2023 and 2022, 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 ₱31,853,972 and ₱25,263,624 as of December 31, 2023 and 2022, respectively, as disclosed in Note 11. The carrying amounts of investment properties amounted to ₱6,498,007 and ₱1,251,877, as of December 31, 2023 and 2022, 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.

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	2023	2022
Financial assets at amortized cost			
Cash on hand	8	₱ 17,311,783	₱ 22,970,375
Due from BSP	8	538,245,583	750,922,043
Due from other banks	8	25,534,383	26,024,250
Investment securities at amortized cost	9	39,822,722	41,064,924
Loans and other receivables – net	10	118,355,037	107,952,847
Other assets*	13	731,962	1,092,482
		₱ 740,001,470	₱ 950,026,921
Financial liabilities at amortized cost			
Deposit liabilities	14	₱ 513,303,955	₱ 710,067,963
Accrued and other liabilities**	15	146,198,287	156,919,253
		₱ 659,502,242	₱ 866,987,216

*excluding non-financial assets amounting to ₱16,017,097 and ₱13,452,401, respectively and net of allowance of ₱4,581,090 and ₱4,249,352 in 2023 and 2022, respectively.

**excluding non-financial liabilities amounting to ₱904,510 and ₱1,798,785, 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.

6.02.01 Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of the Bank as of December 31, 2023 and 2022, without considering the effects of credit risk mitigation techniques.

	Notes	2023	2022
Due from BSP	8	₱ 538,245,583	₱ 750,922,043
Due from other banks	8	25,534,383	26,024,250
Investment securities at amortized cost	9	39,822,722	41,064,924
Loans and other receivables – gross*	10	144,911,473	133,295,987
Other assets**	13	5,313,052	5,341,834
		₱ 753,827,213	₱ 956,649,038

*gross of allowance for credit losses amounting to ₱26,556,436 and ₱25,343,140 in 2023 and 2022, respectively.

**excluding non-financial assets amounting to ₱16,017,097 and ₱13,452,401, respectively and gross of allowance of ₱4,581,090 and ₱4,249,352 in 2023 and 2022, 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, 2023 and 2022.

2023	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Due from BSP	538,245,583	–	–	538,245,583
Due from other banks	25,534,383	–	–	25,534,383
Investment securities at amortized cost	39,822,722	–	–	39,822,722
Loans and other receivables*	69,657,191	59,805,695	15,448,587	144,911,473
Other assets**	731,962	–	–	731,962
	673,991,841	59,805,695	15,448,587	749,246,123
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

*gross of allowance for credit losses amounting to ₱26,556,436 and ₱25,343,140 in 2023 and 2022, respectively.

**excluding non-financial assets amounting to ₱16,017,097 and ₱13,452,401, respectively and net of allowance of ₱4,581,090 and ₱4,249,352 in 2023 and 2022, 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.

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, 2023 and 2022 are as follows:

	2023	2022
Outstanding receivables:		
Current accounts	₱ 69,657,191	₱ 76,614,064
Past due accounts:		
1 – 30 days past due	965,153	3,967,905
31 – 60 days past due	5,089,752	1,845,758
61 – 90 days past due	35,810,587	28,166,389
91 – over 180 days past due	33,388,790	22,701,871
	₱ 144,911,473	₱ 133,295,987

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

- 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

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.

- 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

- 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.
- 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.
- 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.
- 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

- 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.
- 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/1 st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/2 nd restructuring	Loss	100%	3

*PAR for microfinance loans

For secured loans and other credit accommodations:

No. of days unpaid/with missed payments*	Classification	ACL (%)		Stage
		Other types of collateral	Security by real estate	
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

*PAR for microfinance loans

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, 2023 and 2022, minimum liquidity ratio of the Bank is 109.03% and 112.40%, respectively.

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The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2023 and 2022 based on undiscounted contractual cash flows.

	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
2023					
Financial Assets:					
Cash on hand	₱ 17,311,783	₱ –	₱ –	₱ –	₱ 17,311,783
Due from BSP	538,245,583	–	–	–	538,245,583
Due from other banks	25,534,383	–	–	–	25,534,383
Investment securities at amortized cost	–	10,000,000	29,822,722	–	39,822,722
Loans and other receivables*	12,529,563	13,436,423	48,245,758	70,699,729	144,911,473
Other assets**	5,313,052	–	–	–	5,313,052
	₱ 581,622,581	₱ 23,436,423	₱ 78,068,480	₱ 70,699,729	₱ 771,138,996
Financial Liabilities:					
Deposit liabilities	₱ 71,332,045	₱ 441,671,910	₱ 300,000	₱ –	₱ 513,303,955
Accrued and other liabilities***	146,198,287	–	–	–	146,198,287
	₱ 217,530,332	₱ 441,671,910	₱ 300,000	₱ –	₱ 659,502,242

*gross of allowance for credit losses amounting to ₱26,556,436 in 2023.

**excluding non-financial assets amounting to ₱16,017,097 and gross of allowance of ₱4,581,090 in 2023.

***excluding non-financial liabilities amounting to ₱904,510 in 2023.

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2022	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	₱ 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
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.

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.

The fair value of investment properties for the years ended December 31, 2023 and 2022 amounted to ₱30,181,200 and ₱3,767,200, 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:

	2023	2022
Cash on hand	₱ 17,311,783	₱ 22,970,375
Due from BSP	538,245,583	750,922,043
Due from other banks	25,534,383	26,024,250
	₱ 581,091,749	₱ 799,916,668

Cash on hand represents actual cash in vault – local currencies, and those in possession of the cashier and the tellers as of December 31, 2023 and 2022.

Due from BSP pertains to deposit balance maintained with the Bangko Sentral ng Pilipinas to meet reserve requirements. During 2023 and 2022, 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 2023 and 2022.

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 2023 and 2022.

Interest earned on deposits on local banks and deposit with BSP amounted to ₱24,827,237 and ₱13,139,463 in 2023 and 2022, 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:

	2023	2022
Balance at January 1	₱ 41,064,924	₱ 41,064,924
Maturities	(1,242,202)	–
Balance, December 31	₱ 39,822,722	₱ 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, 2023 and 2022.

No impairment was recognized as of and for the years ended December 31, 2023 and 2022.

Interest earned amounted to ₱1,070,000 and ₱1,074,176 for the years ended December 31, 2023 and 2022, respectively.

10. LOANS AND OTHER RECEIVABLES – net

The Bank's loan receivables consist of:

	2023	2022
Current loans	₱ 69,609,475	₱ 76,582,258
Past due loans	75,254,282	56,681,922
Total loans receivable	144,863,757	133,264,180
Accrued interest receivable	47,716	31,807
	144,911,473	133,295,987
Allowance for credit losses – loans receivable (Note 19)	(26,556,436)	(25,343,140)
Total loans and other receivables – net	₱ 118,355,037	₱ 107,952,847

As of December 31, 2023 and 2022, no loans receivable was used as collateral for liabilities.

Total earned interest amounted to ₱17,401,197 and ₱19,194,224 as of December 31, 2023 and 2022, respectively.

Allowance for credit losses is comprised of the following:

	2023	2022
Specific allowance for probable losses	₱ 25,861,092	₱ 24,900,703
General loan loss provision	695,344	442,437
	₱ 26,556,436	₱ 25,343,140

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.

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%

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.

Details of the Bank's unbooked allowance for credit losses as of December 31, 2023 and 2022 are disclosed below:

	2023		2022	
Required allowance	₱	29,714,278	₱	29,061,536
Booked allowance		(26,556,436)		(25,343,140)
	₱	3,157,842	₱	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, 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.

10.02 Non-Performing Loans

Section 304 of the MORB, 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, 2023 and 2022, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2023	2022
Total Non-performing loans	₱ 69,199,377	₱ 50,868,260
Less: Non-performing loans covered by allowance for credit losses	23,571,519	22,171,552
	₱ 45,627,858	₱ 28,696,708

Information regarding the Bank's non-performing loans are as follows:

	2023	2022
Ratio of gross NPLs to gross TLP (%)	47.77%	38.17%
Ratio of net NPLs to gross TLP (%)	31.50%	21.53%
Ratio of total allowance for credit losses to gross NPLs (%)	38.38%	49.82%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	37.78%	48.95%

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

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

2023	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	₱ 12,517,174	₱ 38,144,326	₱ 1,950,697	₱ 5,780,122	₱ 58,392,319
Additions	116,360	796,629	–	–	912,989
Additions – PFRS 16	–	–	–	12,483,391	12,483,391
Write-off	–	(1,870,409)	(386,500)	(5,780,122)	(8,037,031)
At December 31	12,633,534	37,070,546	1,564,197	12,483,391	63,751,668
Accumulated Depreciation:					
At January 1	5,856,285	21,127,585	979,861	5,164,964	33,128,695
Depreciation (Note 18)	1,317,654	3,874,184	325,197	1,447,384	6,964,419
Write-off	–	(1,870,409)	(386,500)	(5,780,122)	(8,037,031)
Adjustments	–	(158,387)	–	–	(158,387)
At December 31	7,173,939	22,972,973	918,558	832,226	31,897,696
Carrying Amount	₱ 5,459,595	₱ 14,097,573	₱ 645,639	₱ 11,651,165	₱ 31,853,972

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2022	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	P 12,427,258	P 46,506,626	P 1,170,697	P 5,780,122	P 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	P 6,660,889	P 17,016,741	P 970,836	P 615,158	P 25,263,624

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 2023 and 2022.

No properties were used as collateral for liabilities as at December 31, 2023 and 2022.

All additions in 2023 and 2022 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, 2023 and 2022, the Bank has complied with this requirement satisfactorily.

The following are the lease agreement entered into by the Bank and outstanding as of December 31, 2023 and 2022:

Location of leased Property	Lease Term		Lease Payment	Escalation Clause
	Start of term	End of term		
Subic bay, Olangapo City	09/01/2023	08/31/2028	244,589	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:

2023	Land	Building	Total
Cost:			
Balance, January 1	₱ 1,251,877	₱ 702,056	₱ 1,953,933
Additions	4,638,173	607,957	5,246,130
Balance, December 31	5,890,050	1,310,013	7,200,063
Accumulated depreciation:			
Balance, January 1	–	702,056	702,056
Balance, December 31	–	702,056	702,056
Carrying amount	₱ 5,890,050	₱ 607,957	₱ 6,498,007
2022			
Cost:			
Balance, January 1	₱ 1,251,877	₱ 702,056	₱ 1,953,933
Accumulated depreciation:			
Balance, January 1	–	690,354	690,354
Depreciation (Note 18)	–	11,702	11,702
Balance, December 31	–	702,056	702,056
Carrying amount	₱ 1,251,877	₱ –	₱ 1,251,877

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.

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, 2023 and 2022 amounted to ₱30,181,200 and ₱3,767,200, 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:

	2023	2022
Advances to others	₱ 13,922,057	₱ 11,918,603
Accounts receivables	5,313,052	5,341,834
Prepaid expenses	1,213,404	704,922
Stationeries and supplies on hand	881,636	828,876
	21,330,149	18,794,235
Allowance for losses – accounts receivable (Note 19)	(4,581,090)	(4,249,352)
	₱ 16,749,059	₱ 14,544,883

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 Infracsoft, employees and suppliers.

14. DEPOSIT LIABILITIES

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

	2023	2022
Savings deposits	₱ 397,554,434	₱ 497,263,761
Demand deposits	102,168,353	201,928,905
Time deposits	13,581,168	10,875,297
	₱ 513,303,955	₱ 710,067,963

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 2023 and 2022.

Interest expense on deposit liabilities charged to statements of comprehensive income in 2023 and 2022 amounted to ₱4,923,880 and ₱5,183,693, respectively.

The Bank is in compliance with these regulations as the Bank's Due from BSP account amounted to ₱538,245,583 and ₱750,922,043 as of December 31, 2023 and 2022, respectively, as disclosed in Note 8, and is enough to cover the required reserve requirements.

15. ACCRUED AND OTHER LIABILITIES

This account consists of:

	2023	2022
Accounts payable	₱ 134,426,184	₱ 156,242,727
Lease liability	11,772,103	676,526
Accrued taxes and other expenses payable	704,578	939,643
Withholding tax payable	142,471	810,768
SSS, Philhealth, and Pag-ibig contribution payable	57,461	48,374
	₱ 147,102,797	₱ 158,718,038

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, 2023 and 2022 are as follows:

	2023	2022
Balance, January 1	₱ 676,526	₱ 2,096,582
Additions	12,483,391	-
Interest	334,000	140,488
Payments	(1,721,814)	(1,560,544)
Balance, December 31	₱ 11,772,103	₱ 676,526

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

	2023	2022
Current	₱ 2,229,307	₱ 676,526
Non-current	9,542,796	-
Total	₱ 11,772,103	₱ 676,526

The maturity analysis of lease liabilities as at December 31, 2023 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within one year	₱ 2,935,073	₱ 705,766	₱ 2,229,307
1 to 2 years	2,935,073	555,100	2,379,973
2 to 3 years	2,935,073	394,251	2,540,822
3 to 4 years	2,935,073	222,531	2,712,542
4 to 5 years	1,956,714	47,255	1,909,459
	₱ 13,697,006	₱ 1,924,903	₱ 11,772,103

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

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

16. EQUITY

16.01 Ordinary Shares

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

	2023		2022	
	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
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, 2023 and 2022:

	2023	2022
Beginning	₱ 52,868,092	₱ 41,941,677
Profit for the year	12,957,821	10,926,415
	₱ 65,825,913	₱ 52,868,092

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.

16.03.01 Capital Ratios as of December 31, 2023

Appendix 62 of the MORB, as amended by BSP Circular Nos. 1079 and 1084, discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks.

The minimum capital ratios shall be expressed as a percentage of capital to risk-weighted assets as shown below:

Minimum Capital Ratio	Capital	% of Risk-Weighted Assets
Common Equity Tier 1 (CET1) Ratio	CET1	at least 6.0%
Tier 1 Ratio	Tier 1	at least 7.5%
Capital Adequacy Ratio (CAR)	Qualifying Capital	at least 10.0%

A capital conservation buffer (CCB) of two and a half percent (2.5%), comprised of CET1 capital, shall likewise be imposed.

The minimum capital ratios based on the new compositions and the CCB shall take effect starting January 1, 2023.

Qualifying capital consists of the following elements, net of required deductions:

- a) Tier 1 Capital, which is composed of:
 - i. CET1 Capital; and
 - ii. Additional Tier 1 (AT1) Capital
- b) Tier 2 Capital

CET1 Capital consists of:

- a) Paid-up common stock; and
- b) Surplus.

Tier 2 Capital consists of:

- a) General loan loss provision.

Additionally, CCB is meant to promote the conservation of capital and build-up of adequate cushion above the minimum level that can be drawn down by banks to absorb losses during periods of financial and economic stress. The buffer is on top of the minimum capital requirements. The capital must first be used to meet the minimum CET1 ratio before the remainder can contribute to the CCB.

Where a bank does not have positive earnings, has CET1 ratio of lower than eight and a half percent (8.5%) [CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%)], and has not complied with other minimum capital ratios, the Bank would then be restricted from making distribution of earnings.

Information regarding the Bank's qualifying capital as of December 31, 2023 is shown below:

	2023
CET1 Capital	₱ 133,943,413
AT1 Capital	—
Tier 1 Capital	133,943,413
Tier 2 Capital	695,344
Qualifying capital	₱ 134,638,757
Total risk-weighted assets	₱ 301,168,690
CET1 Ratio	44.47%
CCB	38.47%
Tier 1 capital	44.47%
Total CAR	44.71%

The Bank's leverage ratio, computed as Tier 1 Capital over total assets, is 16.86% and 12.22%, as of December 31, 2023 and 2022, respectively.

16.03.02 Capital Ratios as of December 31, 2022

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:

- (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.

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; and
 - ii. surplus.
- 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 is shown below:

	2022
Core Tier 1 Capital – gross	₱ 120,985,592
Less: Regulatory adjustments to Core Tier 1	–
Core Tier 1 Capital – net	120,985,592
Add: Hybrid Tier 1	–
Tier 1 Capital	120,985,592
Tier 2 Capital	442,437
Total qualifying capital	₱ 121,428,029
Total risk-weighted assets	₱ 227,802,140
Tier 1 Capital ratio	53.11%
Total capital adequacy ratio	53.30%

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.

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

Monetary Board, in its 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:

	2023	2022
Fees and commission income	₱ 5,360,751	₱ 9,789,865
Remittance services fees	3,400,183	5,964,927
Maintenance fees	2,174,398	1,737,448
ATM services fees	603,118	1,110,628
Recovery on charged-off assets	390,556	149,150
Miscellaneous income	1,939,652	1,282,050
	₱ 13,868,658	₱ 20,034,068

Recovery on charged-off assets pertains to the collections of accounts or recovery from impairment of items previously written-off/provided with allowance for credit losses. For the years ended December 31, 2023 and 2022, recovery on charged-off assets is composed only of collections of accounts previously written-off.

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.

18. OPERATING EXPENSES

The account is composed of the following:

	2023	2022
Compensation and fringe benefits	₱ 10,558,907	₱ 9,981,755
Depreciation	6,964,419	7,817,468
Power, light and water	3,606,907	573,662
Rent expense	2,389,760	290,955
Insurance – PDIC	1,212,397	1,878,970
Fees and commissions	989,236	402,469
Information technology expenses	938,462	1,324,862
Security, clerical, messengerial and janitorial services	784,530	765,539
Management and other professional fees	775,000	1,417,290
Membership fees and dues	564,968	172,088
Repairs and maintenance	395,795	485,205
Fuel and lubricants	356,649	152,808
Interest expense – lease liability	334,000	140,488
Stationery and supplies used	296,241	347,674
Representation and entertainment	223,343	208,282
Litigation expense	171,358	–
Postage, telephone, cables and telegrams	102,678	75,076
Traveling expenses	97,646	119,772
Supervision fees	66,543	60,646
Fines and penalties	46,168	43,521
Documentary stamps used	36,256	22,800
Insurance expenses – others	33,254	37,466
Advertising and publicity	25,451	8,142
Taxes and licenses	11,412	75,454
Periodicals and magazines	7,000	57,000
Donations and charitable contributions	–	25,820
Miscellaneous expenses	1,060,614	455,900
	₱ 32,048,994	₱ 26,941,112

Compensation and other benefits are comprised of the following:

	2023	2022
Salaries and wages	₱ 9,235,716	₱ 8,809,772
Mandatory payables	825,224	672,136
Director's fee	486,667	492,909
Fringe benefits to officers and employees	11,300	6,938
	₱ 10,558,907	₱ 9,981,755

Breakdown of depreciation expense is disclosed below:

	Notes	2023	2022
Bank premises, furniture, fixture and equipment	11	₱ 6,964,419	₱ 7,805,766
Investment properties	12	-	11,702
		₱ 6,964,419	₱ 7,817,468

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, 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
Provision	6,459,426	331,738	6,791,164
Allowance transferred to ROPA	(5,246,130)	-	(5,246,130)
Balance, December 31, 2023	26,556,436	4,581,090	31,137,526

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:

	2023	2022
Income tax expense – current	P 445,233	P 502,683

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2023 and 2022 is as follows:

	2023	2022
Subject to special tax rate of 5%:		
Gross income	P 1,740,095	P 1,213,365
Income tax effects of:		
Interest income subject to final tax	(1,294,862)	(710,682)
	P 445,233	P 502,683

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.

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, 2023 and 2022.

Account	Terms and conditions	Transactions/Volume		Outstanding Balance	
		2023	2022	2023	2022
Pacific Ace Forex HK Ltd.					
Nature of relationship: Owned by Stockholder					
Accounts receivables					
	Unsecured, non-interest bearing No impairment	4,846,410	6,980,230	307,280	509,210

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, 2023 and 2022.

Category	Amount of Transactions	Outstanding Balances	Terms	Conditions
DOSRI loans	₱ (469,028)	₱ 5,445,342	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.
- 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 its 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%

The Bank assessed that Related party loans are not impaired as of December 31, 2022. Total allowance for credit losses recognized as of December 31, 2022 amounted to ₱54,453. Which represents the general loan loss provision.

As of December 31, 2023, the Bank has no DOSRI and other related party loans.

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 ₱14,737 to ₱371,651 with escalation clause as determined by both parties and paid a total amount of ₱3,802,440 and ₱176,842, respectively in 2023 and ₱1,674,657 and ₱176,842, respectively in 2022. The Bank paid its water expense to Pacific Ace Subic Corporation as lease a total amount of ₱93,574 and ₱120,490 in 2023 and 2022, respectively.

21.02 Buy-out Transaction with Affiliate

In 2023, The Bank entered into buy-out transaction with Pacific Ace Finance, an affiliate of the Bank, amounting to ₱9,517,878.

21.03 Remuneration of Key Management Personnel

The key management compensation during as of December 31, 2023 and 2022 is composed of the following:

	2023	2022
Short-term employee benefits	₱ 400,000	₱ 1,041,667
Post-employment benefits	-	-
	₱ 400,000	₱ 1,041,667

22. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following shows the movement of financial liabilities.

2023	January 1	Cash flows	Non-cash changes		December 31
			Interest expense	Others	
Lease liability	₱ 676,526	(1,721,814)	334,000	12,483,391	₱ 11,772,103

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

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.

At the end of 2023 and 2022, 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, 2023 and 2022 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

The financial statements were approved and authorized for issue by the Board of Directors on April 19, 2024.

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

Revenue Regulation (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, 2023 and 2022.

27.02 Withholding Taxes

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

2023	Paid	Accrued	Total
Expanded withholding tax	₱ 156,277	₱ 21,204	₱ 177,481
Final withholding tax	901,043	110,914	1,011,957
Withholding tax on compensation	120,676	10,353	131,029
	₱ 1,177,996	₱ 142,471	₱ 1,320,467
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

27.03 Taxes and Licenses

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

	2023	2022
<i>National taxes:</i>		
Annual registration – BIR	₱ 500	₱ 516
<i>Local taxes:</i>		
Business permit	9,100	3,098
Others	1,812	71,840
	₱ 11,412	₱ 75,454

27.04 Deficiency Tax Assessments and Tax Cases

The Bank has no deficiency tax assessments for the years ended December 31, 2023 and 2022.

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:

	2023	2022
Return on average equity	10.17%	9.46%
Return on average assets	1.45%	1.26%
Net interest margin	4.66%	3.48%

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):

	2023			2022		
	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	47,482,059	32.78	35.45	57,227,257	42.94	47.30
Real estate activities	38,366,426	26.48	28.64	31,300,585	23.49	25.87
Arts, entertainment and recreation	21,464,268	14.82	16.02	6,703,591	5.03	5.54
Agriculture, forestry, and fishing	16,304,881	11.26	12.17	15,369,512	11.53	12.70
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	10,030,359	6.92	7.49	11,434,117	8.58	9.45
Construction	5,756,779	3.97	4.30	5,756,779	4.32	4.76
Financial and insurance activities	5,431,477	3.75	4.06	5,431,477	4.08	4.49
Manufacturing	27,508	0.02	0.02	27,508	0.02	0.02
Transportation and storage	-	0.00	0.00	13,354	0.01	0.01
Total	144,863,757	100		133,264,180	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 ₱13,394,341 and ₱12,098,559, as of December 31, 2023 and 2022, respectively.

In 2023, 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, Arts, entertainment and recreation, and agriculture, forestry, and fishing amounting to more than 10% of Tier 1 Capital.

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.

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:

	2023		2022	
Secured by real estate mortgage	₱	119,322,680	₱	107,686,043
Unsecured		25,541,077		25,578,137
	₱	144,863,757	₱	133,264,180

28.04.02 As to Status

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

2023	Performing	Non-performing	Total
Small enterprises	₱ 24,994,223	₱ 15,431,375	₱ 40,425,598
Loans to individuals for housing purposes	24,834,341	13,532,085	38,366,426
Microfinance loans	8,180,197	14,767,904	22,948,101
Medium enterprises	4,895,286	14,806,351	19,701,637
Agrarian reform loans	4,948,562	8,443,074	13,391,636
Salary-based general consumptions purposes	7,811,771	2,218,588	10,030,359
	₱ 75,664,380	₱ 69,199,377	₱ 144,863,757
2022	Performing	Non-performing	Total
Microfinance loans	₱ 50,187,364	₱ 20,489,790	₱ 70,677,154
Loans to individuals for housing purposes	8,863,446	14,774,514	23,637,960
Agrarian reform loans	6,199,455	7,044,483	13,243,938
Salary-based general consumptions purposes	8,794,956	2,639,161	11,434,117
Small enterprises	6,703,591	5,920,312	12,623,903
Medium enterprises	1,647,108	–	1,647,108
	₱ 82,395,920	₱ 50,868,260	₱ 133,264,180

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, 2023 and 2022, 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, 2023 and 2022:

	2023	2022
Items held as collateral	64	–

PACIFIC ACE SAVINGS BANK, INC.**OLONGAPO, PHILIPPINES****Comparison of Submitted Balance Sheet and Income Statement and Audited Financial Statements****As of December 31, 2023****A. Statement of Financial Position**

	Submitted report	Audited report	Variance/ Discrepancy	Reason for Discrepancy AJE Ref No.
ASSETS				
Cash and other cash items	17,311,783	17,311,783	-	
Due from Bangko Central ng Pilipinas	538,245,583	538,245,583	-	
Due from other banks	25,534,383	25,534,383	-	
Investment securities at amortized cost	39,822,722	39,822,722	-	
Loans and other receivables - net	118,307,321	118,355,037	47,716	1,7,9
Bank premises, furniture, fixtures and equipment – net	20,418,901	31,853,972	11,435,071	1,3,4,5,6
Investment properties - net	6,498,007	6,498,007	-	
Other assets	17,210,186	16,749,059	(461,127)	1,9
TOTAL ASSETS	783,348,886	794,370,546	11,021,660	
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities	513,303,955	513,303,955	-	
Income tax payable	-	20,381	20,381	1,2,8
Accrued and other liabilities	135,330,693	147,102,797	11,772,104	1,3,5,6
TOTAL LIABILITIES	648,634,648	660,427,133	11,792,485	
EQUITY				
Capital Stock	68,117,500	68,117,500	-	
Retained earnings	66,596,738	65,825,913	(770,825)	1,2,3,6,7,8
TOTAL EQUITY	134,714,238	133,943,413	(770,825)	
TOTAL LIABILITIES AND EQUITY	783,348,886	794,370,546	11,021,660	

B. Statement of Comprehensive Income

Total income	57,157,717	57,167,092	9,375	1,7
Total expense	(43,704,467)	(43,764,038)	(59,571)	3,6
NET INCOME, BEFORE INCOME TAX	13,453,250	13,403,054	(50,196)	

Client: PACIFIC ACE SAVINGS, INC.
Year end: December 31, 2023
Subject: Adjusting Journal Entries



PAJE No.	AWP ref	Amount (in Php)	
		DR	CR
1		5,780,122.00	
		923,477.29	
		17,815.74	
		19,844.00	
			14,102.63
			446,343.06
			216,093.11
			223,230.26
			5,164,964.00
			676,525.99
			<i>To correct the beginning balance.</i>
2		223,230.26	
			223,230
			<i>To correct the beginning balance.</i>
3		66,929.77	
		676,526.37	
		615,158.00	
			615,158.00
			743,456.13
			<i>To recognize adjustment on PFRS 16 - old contract</i>
4		5,780,122.00	
			5,780,122.00
			<i>To reverse expired contract</i>
5		12,483,390.82	
			12,483,390.82
			<i>To recognize ROU and lease liab for new contract</i>
6		267,070.41	
		711,287.19	
		832,226.05	
			832,226.05
			978,357.60
			<i>To recognize adjustment on PFRS 16 - new contract</i>
7		47,034.61	
			47,034.61
			<i>To recognize additional Accrual of interest</i>
8		20,380.96	
			20,380.96
			<i>To record the current tax expense.</i>
9		447,024	
			447,024
			<i>To record the reclassification of AIR</i>