COVER SHEET
for
SEC FORM 20-IS

SEC Registration Number

C	S	2	0	1	1	0	9	7	0	6	

Company Name

BDO NETWORK BANK. INC.

Principal Office (No./Street/Barangay/City/Town/Province)

BDONB CORPORATE CENTER,
KM. 9 SASA, DAVAO CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
20-IS	**CFD**	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	(6382) 233 7700 loc. 60105	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
		December 31

CONTACT PERSON INFORMATION
The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
JOSEPH JASON M. NATIVIDAD	**jjnatividad@factoranlaw.com.ph**		

Contact Person's Address

21ST Floor, BDO Towers Valero, 8741 Paseo de Roxas, Salcedo Village, Makati City

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

NOTICE OF STOCKHOLDERS’ MEETING

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Dear Stockholder:

Please be informed that the Annual Stockholders' Meeting ("ASM") of **BDO NETWORK BANK, INC.** ("BDONB" or the "Bank") will be held on April 28, 2023, Friday, at eleven o'clock in the morning. The ASM will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia. The in-person meeting will be held at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely.

The Agenda of the meeting is as follows:

I. Call to order

II. Proof of notice and determination of existence of quorum

III. Approval of the minutes of the previous Annual Stockholders' Meeting held on April 29, 2022 and Special Stockholders' Meeting held on October 05, 2022.

IV. Report of the President and approval of the Audited Financial Statements of BDONB as of December 31, 2022.

V. Open Forum

VI. Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their terms of office

VII. Election of Directors

VIII. Appointment of External Auditor

IX. Other business that may properly be brought before the meeting

X. Adjournment

Each agenda item for approval is explained in the Definitive Information Statement (DIS), with a brief description in the attached Annex "A."

The Bank's Board of Directors has fixed **March 15, 2023** as the record date for the determination of Stockholders entitled to notice of, to participate, and to vote *in absentia* at such meeting and any adjournment thereof.

Stockholders of record who wish to participate in the meeting via remote communication and to cast their votes *in absentia* shall notify the Office of the Corporate Secretary at <bdonbcorsec@bdonetworkbank.com.ph> accordingly, and submit supporting documents no later than **April 21, 2023.** For the detailed registration and voting procedures, please visit <www.bdonetworkbank.com.ph/2023ASM> and refer to the ***"Guidelines for Registering, Participating via Remote Communication and In-Person, and Voting in Absentia".***

In addition to the above, Stockholders who wish to attend in-person must email the Corporate Secretary at <bdonbcorsec@bdonetworkbank.com.ph> to be counted for in-person attendance. Kindly note that in observance of Covid-19 protocols, in-person attendance will be limited to the first ten (10) fully-vaccinated Stockholders who registered via email as set forth above.

Stockholders who wish to appoint a proxy must submit their duly accomplished and signed proxies no later than **March 21, 2023** to the Office of the Corporate Secretary at the 6th Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City via courier delivery **or** by email to bdonbcorsec@bdonetworkbank.com.ph. Validation of proxies is set on **April 21, 2023,** at **10:00 o'clock a.m.,** at the Office of the Corporate Secretary. Stockholders may download and print the proxy form from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

Successfully registered Stockholders can then cast their votes in absentia and all documents and information submitted shall be subject to verification and validation by the Office of the Corporate Secretary.

The procedure for nomination and election of directors is detailed in the Information Statement posted on the Bank's website <www.bdonetworkbank.com.ph/2023DIS>.

For complete information on the Bank's 2023 ASM, please visit www.bdonetworkbank.com.ph/2023ASM>.[1]

Atty. Joseph Jason M. Natividad
Corporate Secretary

[1] *Accessible on this webpage are the electronic copies of the Information Statement with Management Report, SEC Form 17-A (once available), and other pertinent documents related to the Bank's 2023 ASM.*

ANNEX "A"

BRIEF DESCRIPTION OF AGENDA ITEMS

I. **Call to order.** The Chairman, Mr. Nestor V. Tan, will formally open the 2023 Annual Stockholders' Meeting (ASM) of BDO Network Bank, Inc. ("BDONB" or the "Bank").

II. **Proof of notice and determination of existence of quorum.** The Corporate Secretary, Atty. Joseph Jason M. Natividad, will certify that notice requirements for the 2023 ASM have been complied with in accordance with BDONB's Amended By-Laws, Revised Corporation Code of the Philippines, and the Securities and Exchange Commission (SEC) regulations, and will attest whether a quorum is present for the valid transaction of the ASM and all matters included in the Agenda.

III. **Approval of the Minutes of the Annual Stockholders' Meeting held on April 29, 2022 and Special Stockholders' Meeting held on October 05, 2022.** Copies of the Minutes are available for examination during office hours at the Office of the Corporate Secretary and at BDONB's website <www.bdonetworkbank.com.ph/2023ASMminutes>. Stockholders will be asked to approve the Minutes. Below is the text of the proposed resolution:

> "RESOLVED, That the Stockholders of BDO Network Bank, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholders' Meeting held on April 29, 2022, and Special Stockholders' Meeting held on October 05, 2022."

IV. **President's Report and approval of BDONB's Audited Financial Statements (AFS) as of December 31, 2022.** The Report presents the highlights of the performance and achievements of BDONB in 2022. It includes the summary of the AFS which is incorporated in the Definitive Information Statement (DIS) posted in BDONB's website <www.bdonetworkbank.com.ph/2022DIS>. Copies of the AFS are also submitted to the SEC and Bureau of Internal Revenue.

V. **Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their terms of office.** All actions and proceedings, criteria and process for the Board of Directors' evaluation as published in BDONB's website, including approvals of significant related parties' transactions, of the Board of Directors, the Board Committees, and the Management of BDONB from the last Annual Stockholders' Meeting of BDONB held on April 29, 2022 and Special Stockholders' Meeting held on October 05, 2022, will be presented to the stockholders for their approval and ratification. These collective actions are the main keys to the impressive performance of BDONB in 2022.

VI. **Election of Directors.** The Chairman of the Corporate Governance Committee will present to the stockholders the nominees for election as members of the Board of Directors of BDONB, including the independent directors. The profiles of the nominees to the Board of Directors are provided in the Definitive Information Statement (DIS) posted in BDONB's website <www.bdonetworkbank.com.ph/2023DIS> for reference of the stockholders.

VII. **Appointment of External Auditor.** The Board Audit Committee of BDONB would accept and screen the nominees for external auditor of BDONB. It will make the appropriate recommendation on the appointment of one auditing firm as external auditor of BDONB. The recommended external auditor will be presented to the stockholders for their approval.

VIII. **Other business that may properly be brought before the meeting.** All other matters that arise after the Notice of Meeting and Agenda have been sent out or raised throughout the course of the meeting may be presented to the stockholders for consideration. Stockholders may raise such matters as may be relevant or appropriate to the occasion.

IX. **Open Forum.** Every stockholder may raise any relevant question or express any appropriate comment. Stockholders are given the opportunity to send their questions and/or remarks prior to the meeting by sending an email to <bdonbcorsec@bdonetworkbank.com.ph> not later than 10:00 a.m. of April 28, 2023. Questions which cannot be read and answered during the meeting will be replied to by BDONB through the Stockholders' email addresses.

X. **Adjournment.** After consideration of all business, the Chairperson shall declare the meeting adjourned. This formally ends the 2023 Annual Stockholders' Meeting of BDONB.

Definitive Information Statement

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   [ ] Preliminary Information Statement
   [✓] Definitive Information Statement

2. Name of Registrant as specified in its charter: **BDO NETWORK BANK, INC.**

3. Country of Incorporation: **Philippines**

4. SEC Identification Number: **CS201109703**

5. BIR Tax Identification Code: **413-177-215-000**

6. Address of principal office: **BDONB Corporate Center, Km. 9, Sasa, Davao City**

7. Registrant's telephone number, including area code: **(082) 233 – 7777**

8. Date, time and place of the meeting of security holders: **April 28, 2023**, **11:00 a.m.**

   The meeting will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia. The in-person meeting will be attended by BDONB Board of Directors, Management and stockholders of record, at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely.

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **April 5, 2023**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

Title of Each Class	Number of Shares
N/A	N/A

11. Are any or all of registrant's securities listed on a Stock Exchange?

   Yes _✓__ No ______

WE ARE NOT ASKING YOU FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY.

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

(a)	Date	:	**April 28, 2023**
	Time	:	**11:00 o'clock a.m.**
	Place	**:**	**The meeting will be held at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely**
	Mailing Address	:	**BDO NETWORK BANK, INC.** **Office of the Corporate Secretary** **6/F, BDONB Corporate Center** **Km. 9, Sasa, Davao City 8000** **Philippines**

(b) Approximate date on which the Information Statement is first to be sent or given to security holders: **April 5, 2023**

Item 2. Rights of Shareholders; Dissenter's Right of Appraisal

BDO Network Bank, Inc. **(BDONB)** respects the inherent rights of shareholders in accordance with law. BDONB recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the By Laws of BDONB provides that all shares of each class should carry the same rights, and any changes in the voting rights shall be approved by them.

When a proposed corporate action would involve a substantial and fundamental change in BDONB in the cases provided by law, a stockholder may exercise his appraisal right. Pursuant to Section 81 of the Revised Corporation Code of the Philippines (the "Corporation Code"), a stockholder may exercise his appraisal right by dissenting on any of the following corporate actions and demanding payment of the fair value of his shares:

(1) Amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
(2) In case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
(3) In case of merger or consolidation; or
(4) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

The procedure for the exercise of a stockholder's appraisal right is as follows:

(1) A stockholder shall have dissented to such corporate action;

(2) Within thirty (30) days after the date on which the vote was taken, the dissenting stockholder shall make a written demand to BDONB for payment of the fair value of his shares.

Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

(3) Within ten (10) days after demanding payment for his shares, the dissenting stockholder shall submit to BDONB the certificate(s) of stock representing his shares for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of BDONB, terminate his appraisal right.

(4) No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless BDONB consents thereto.

(5) If the corporate action is implemented or effected, BDONB shall pay to such dissenting stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger if such be the corporate action involved.

(6) If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and BDONB cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by BDONB, and the third by the two (2) thus chosen.

(7) The findings of a majority of the appraisers shall be final, and their award shall be paid by BDONB within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless BDONB has unrestricted retained earnings in its books to cover such payment.

(8) Upon payment of the agreed or awarded price, the stockholder shall forthwith transfer his shares to BDONB.

No matter will be presented for shareholders' approval during the annual meeting which may give rise to the exercise of the right of appraisal.

Item 3. Interest of Certain Persons in or Opposition to Matters to be acted Upon

(a) No director or officer of BDONB since the beginning of the last fiscal year, or any nominee for election as director, nor any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the meeting.

(b) No director of BDONB has informed BDONB in writing that he intends to oppose any action to be taken by BDONB at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders

(a) Voting securities entitled to be voted at the meeting:

<table>
<tr><th>Title of Each Class</th><th>Number of Shares</th><th>Number of Votes Outstanding</th></tr>
<tr><td>Common Shares</td><td>490,035,200</td><td rowspan="3">One (1) vote per share, except in the election of directors where one share is entitled to as many votes as there are directors to be elected.</td></tr>
<tr><td>Government Preferred “A” Shares</td><td>20, 560</td></tr>
<tr><td>Total</td><td>490,055,760</td></tr>
</table>

(b) Record date

Only stockholders of record in the books of BDONB as of the close of business on March 15, 2023 are entitled to notice of, and to vote at, the annual meeting.

(c) Election of Directors and Voting rights

Each shareholder holding Common Shares (each, a “**Voting Share**”) as of record date March 15, 2023 is entitled to as many votes as there are directors to be elected. Thus, if there are eleven (11) directors to be elected, each Voting Share is entitled to eleven (11) votes. Such shareholder may cumulate and cast all his votes in favor of one candidate or distribute them among as many candidates as he shall see fit, provided that the total number of votes cast by him does not exceed the number of shares owned by him multiplied by the number of directors to be elected.

In accordance with the Corporation Code and the rules and regulations of the Securities and Exchange Commission (SEC), the ASM will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia. The in-person meeting will be held at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely. The details of which can be found in <www.bdonetworkbank.com.ph/2023ASM>. The Bank will record the video of the proceedings and maintain a copy with the Office of the Corporate Secretary. After the meeting, stockholders may access the recorded webcast of the ASM by sending an email request addressed to <corporate_secretary@bdonetworkbank.com.ph>.

For this year’s Annual Stockholders’ Meeting, BDONB will be allowing stockholders to participate in the meeting via remote communication and to vote in absentia.

The shareholder holding Voting Shares may nominate directors and vote by remote communication, *in absentia*, or by proxy. Stockholders of record may submit their registration for remote communication, or duly executed and signed proxies on or before April 13, 2023 at the Office of the Corporate Secretary, 6/F, BDONB Corporate Center, Km. 9, Sasa, Davao City 8000 via courier delivery or by email to <corporate_secretary@bdonb.com.ph>. Successfully registered stockholders of record opting to vote in absentia may access the ballot from BDONB’s website <www.bdonetworkbank.com.ph/ASMballot> and submit by sending a JPG or PDF form to <corporate_secretary@bdonetworkbank.com.ph> no later than

April 13, 2023. Stockholders of record opting to vote by proxy may download and print the proxy form from BDO's website <www.bdonetworkbank.com.ph/2023proxyform>.

A forum for the validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary shall be convened on April 21, 2023, 11:00 a.m., at the BDONB Corporate Center, Km. 9, Sasa, Davao City. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

The detailed guidelines for participation and voting for this meeting are set forth in the ***"Guidelines for Registering, Participating via Remote Communication and Voting in Absentia"*** appended to this Information Statement.

(d) Security ownership of certain record and beneficial owners and management:

1. Security ownership of certain record/beneficial owners

As of March 15, 2023, the following are known to BDONB to be directly or indirectly the record and/or beneficial owners of more than 5% of BDONB's voting securities:

Title of Class	**Name, address of record owner and relationship with** BDONB	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**No. of Shares Held**	**Percent**
Common	BDO Unibank, Inc. BDO Corporate Center, 7899 Makati Avenue, Makati City	Nestor V. Tan President	Filipino	***422,320,814**	****86.18%**
Common	Osmanthus Investment Holdings Singapore 068906	Jovasky Wei Shen Pang	Singaporean	**61,466,610**	**12.54%**
			TOTAL (COMMON)	**483,787,424**	**98.72%**

The application for issuance of the Certificate Authorizing Registration to transfer* ***5,800,546* *shares from various owners to BDO Unibank, Inc. in the records of the Bank is currently pending with the BIR.*
***Beneficial ownership of BDO Unibank, Inc.*

There are no voting trust shares or shares issued pursuant to a voting trust agreement registered with BDONB.

There are no arrangements which may result in a change of control of BDONB.

2. Security ownership of management

As of March 15, 2023, the directors of BDONB each own one (1) Common Share. The BDONB directors and officers own the following common shares of BDONB:

Title of Class	Name of Beneficial Owner	Position	Citizenship	Amount and Nature of Ownership	Percent of Class
Common	Nestor V. Tan	Chairman	Filipino	1 (Direct)	Nil
Common	Jaime C. Yu	Director	Filipino	1 (Direct)	Nil
Common	Jesus Antonio S. Itchon	Director/Vice Chairman and President	Filipino	1 (Direct)	Nil
Common	Rolando C. Tanchanco	Director	Filipino	1 (Direct)	Nil
Common	Evelyn Cristina A. Cam	Independent Director	Filipino	1 (Direct)	Nil
Common	Jose S. Tanjuatco	Independent Director	Filipino	1 (Direct)	Nil
Common	Edwin Romualdo G. Reyes	Director	Filipino	1 (Direct)	Nil
Common	Ma. Leonora V. De Jesus	Independent Director	Filipino	1 (Direct)	Nil
Common	Jovasky Wei Shen Pang	Director	Singaporean	1 (Direct)	Nil
Common	Geneva T. Gloria	Director	Filipino	1 (Direct)	Nil
Common	Joseph Jason M. Natividad	Corporate Secretary	Filipino	0	Nil
Common	Ma. Cecilia S. Santos	Assistant Corporate Secretary	Filipino	0	Nil
			TOTAL	**10**	**Nil**

Item 5. Directors and Executive Officers

(a) Directors and Corporate Officers

The Board of Directors has eleven (11) board seats and is currently composed of ten (10) directors with a combination of executive and non-executive directors which includes independent directors. All are professionals with competencies and experience in the fields of banking, accounting, economics, microfinance, law and agri-business.

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of BDONB. It is also responsible for the proper administration and management of BDONB's business. The/ members of the Board are elected specially by the stockholders to hold office for a term of one (1) year, and shall serve until their respective successors have been elected and qualified. In all cases, subject to the approved qualification and disqualification criteria established under the Corporate Governance Committee, BSP’s fit and proper rule and other existing laws and regulations.

The Board of Directors meets monthly or as may be necessary, to discuss BDONB’s operations and approve matters requiring its approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five (5) days prior to the scheduled Board meeting.

Following is the list of the members of the Board, and the corporate officers and their business experience during the past five (5) years:

Directors’ Profile

Nestor V. Tan
Chairman
Non-Executive Director
Filipino, 65 years old

Nestor V. Tan is the Chairman and Director of BDONB. He was first elected as Director of BDONB on 18 August 2015. He is the President and Chief Executive Officer of BDO Unibank, Inc., and concurrently Chairman of BDO Strategic Holdings, Inc. He also holds the following positions in the BDO Group: Chairmanship of BDO Strategic Holdings, Inc. and BDO Network Bank, Inc.; Vice chairmanships and/or directorships in BDO Capital & Investment Corporation, BDO Finance Corporation, BDO Life Assurance Company, Inc., BDO Private Bank, Inc., and SM Keppel Land, Inc., and, Trusteeship of BDO Foundation, Inc.

In addition, he is currently the Chairman of the De La Salle University Board of Trustees, Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks, and; Chairman of Mastercard Asia Pacific Advisory Board. He is the past president, and current Director of the Bankers Association of the Philippines.

Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment-banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank in Pittsburgh, PA; Bankers Trust Company in New York, NY; and the Barclays Group in New York and London. He holds a bachelor’s degree in Commerce from De La Salle University and an MBA from the Wharton School, University of Pennsylvania.

Jesus Antonio S. Itchon
Vice Chairman and President
Executive Director
Filipino, 62 years old

Jesus Antonio S. Itchon is the President and Vice Chairman of BDONB and was elected Director of BDONB in 15 September 2017. Prior to joining BDONB, he served as Executive Vice President of Property Company of Friends, Inc., a low cost residential and estate developer, and as Independent Director of Paymaya Phils., Inc., subsidiary of Smart Communications, Inc. He has more than 30 years of experience in banking and finance, holding key positions such as Managing Director of Citibank N.A. and President of Citibank Savings, Inc. He holds a bachelor's degree in Economics from De La Salle University and finished his MBA at the Johnson Graduate School of Management, Cornell University.

Jovasky Wei Shen Pang
Non- Executive Director
Singaporean, 46 years old

Jovasky Wei Shen Pang is a Director of BDONB. He is likewise the Director and Chief Executive Officer of Archipelago Capital Partners Pte Ltd., a Singapore based fund that invests in small to mid-market companies in Southeast Asia, and a Director of Archipelago Asia Focus Investment VCC. Prior to Archipelago, Mr. Pang spent over a decade at Temasek and Fullerton Financial Holdings (FFH). As the Global Head of SME and Consumer Banking at FFH, the financial services investment arm of Temasek Holdings, he was responsible for FFH's investments into financial institutions and the strategy and management of these companies. In the initial years at Temasek, he was instrumental in the turnaround of Bank Danamon in Indonesia and building the microfinance and SME banking business models which were subsequently replicated regionally in other portfolio investments. He also served for six years as the CEO of BOC Fullerton Community Bank and built it up to become the largest village bank network in China. BOC Fullerton Community Bank had won numerous national awards for excellence in service and innovation, and Mr. Pang was named Banking CEO of the Year (small bank category by the Economic Observer).

Mr. Pang started his career at a global consulting firm, McKinsey & Company. He worked extensively with clients across many markets (e.g. Korea, China, Australia, Malaysia, Taiwan, etc.) and was one of the founders of McKinsey's Financial Institution Practice in South-east Asia. Mr. Pang holds a Bachelor of Arts (Hons) and a Master of Arts in Philosophy, Politics and Economics from Oxford University in the United Kingdom.

Jaime C. Yu
Non-Executive Director
Filipino, 64 years old

Jaime C. Yu is a Director of BDONB since August 18, 2015 and a Senior Executive Vice President of BDO Unibank, Inc. He is also a Director of BDO Life Assurance Company, Inc. and BDO Insurance Brokers, Inc. He holds a Bachelor of Arts degree in Economics from De La Salle University and is a MBA graduate from the Ateneo de Manila University. He has extensive experience in commercial, corporate, and investment banking from the International Corporate Bank and Union Bank of the Philippines, where he held various positions up to his appointment as First Vice President and Region Head for the Manila- Pasay area. He joined BDO in December 1997 and is currently the Group Head of Branch Banking of BDO where he manages the entire branch network.

Rolando C. Tanchanco
Non-Executive Director
Filipino, 60 years old

Rolando C. Tanchanco is Senior Executive Vice President of BDO Universal Bank and Head of its Consumer Banking Group. His responsibilities cover all retail lending businesses (Home Mortgages, Auto Financing, Small Business Loans, Credit Cards and Personal Loans), Payment Channels, and Digital Banking. He currently sits on the board of BDO Network Bank Inc., BDO Insurance Brokers Inc. and TransUnion Phils Inc. Mr. Tanchanco is a member of Visa Asia Pacific Client and Risk Councils, American Express Partner Advisory Council, and UnionPay SEA Regional Council.

Prior to joining BDO, Mr. Tanchanco was president of AIG Savings Bank and Managing Director of AIG Credit Card Company. He has extensive banking experience having worked in several multinational organizations like Citibank, HSBC and AIG. He holds a Bachelor's degree in Business Economics, cum laude from the University of the Philippines and a Master's degree from the Asian Institute of Management.

Jose S. Tanjuatco
Lead Independent Director
Filipino, 71 years old

Jose S. Tanjuatco is a member of the Board of Directors, of BDO Network Bank, Inc. His appointment to the BDONB Board, as the Lead Independent Director, commenced last August 28, 2020. He is also an Independent Director of BDO Capital & Investment Corporation, BDO Securities Corporation, and BDO Private Bank, Inc. He holds a Bachelor of Arts degree, major in History & Political Science and a Bachelor of Science degree, major in Business Administration from De La Salle College (now De La Salle University). He obtained his Masters in Business Management degree from the Asian Institute of Management. His work experience included stints with PCIBank, PLDT, Equitable Bank, Philippine Airlines, Bank of Commerce, Macroasia Corporation and PAGCOR. He had also served as a member of the Board of Trustees of De La Salle University and as Chairman of the Board of Trustees of La Salle College Antipolo.

Evelyn Cristina Ang Cam
Independent Director
Filipino, 42 years old

Evelyn Cristina Ang Cam, CFA, is an Independent Director of BDONB since August 28, 2020. She is the Managing Director and Chief of Operations of Cam & Company, Inc. since 2015, a family owned and Davao-based corporation engaged in Agribusiness and Commercial Real Estate. Moreover, she holds ownership stakes in the following privately held companies, namely: 1.) Cam Marketing, Inc., a Davao-based corporation engaged in Mindanao distribution of veterinary and animal health products; 2.) Five Jewels Corporation, a Davao-based corporation engaged in the distribution of United Laboratories Products and B Meg Animal Feeds; 3.) South Sea Designs, Inc., a Davao-based corporation engaged in real estate and distribution of B Meg Animal Feeds for large farms; 5.) Phil Agro Industrial Corporation, a Bukidnon-based corporation engaged in the manufacture of cassava starch, and which also provides financing and technical assistance to cassava farmers; and 6.) FJC Farm, Inc., a Bukidnon-based corporation engaged in hog raising.

Ms. Cam holds a Bachelor of Arts in Management Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Tuck School of Business at Dartmouth College. She successfully passed Level 3 of the CFA (Chartered Financial Analyst) exam in 2010 and earned her charter thereafter. Ms. Cam is a current member of the CFA Philippine Society as well as the Hog Farmers Association of Davao City.

Ma. Leonora V. De Jesus
Independent Director

Filipino, 72 years old

Ma. Leonora V. De Jesus was elected as Independent Director of BDONB on May 19, 2018. She is presently the Chairperson of the Bank's Board Audit Committee, and a member of the Corporate Governance Committee, and Related Party Transactions Committee. She is also an Independent Director of STI Education Systems Holdings, Inc. Ms. De Jesus also serves as Director of Risks, Opportunities Assessment and Management (ROAM), Inc. In addition, she is an accredited SEC trainor on corporate governance. In the past, Ms. De Jesus was an Independent Director of Dominion Holdings, Inc (formerly BDO Leasing and Finance, Inc.), Equitable Savings Bank, PCI Capital Corporation, and BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and a Director of SM Development Corporation. She was formerly the University President of the Pamantasan ng Lungsod ng Maynila and was a professorial lecturer at the University of the Philippines, Diliman, and at the De La Salle Graduate School of Business and Governance. She attended a training on Portfolio Management at the New York Institute of Finance, and a Housing Finance course at the Wharton School of Business. She was also a member of the Board of Governors of the Philippine National Red Cross. Ms. De Jesus was a trustee of the Government Service Insurance System (GSIS) from 1998 until 2004, and was a member of the cabinet of Presidents Corazon C. Aquino, Fidel V. Ramos and Joseph E. Estrada. She holds bachelor's, master's and doctorate degrees in Psychology from the University of the Philippines.

Geneva T. Gloria
Non-Executive Director
Filipino, 58 years old

Geneva T. Gloria has been with BDO Unibank for more than **20** years and has over thirty (30) years of experience in the banking industry. She is the Senior Vice President and Head of BDO Remittance and was also elected as a Director of BDO Network Bank on January 4, 2020. Ms. Gloria is also the concurrent director of BDO Remit offices located in Hong Kong, Macau, Japan, USA, Canada and the UK. Having acquired more than 25 years in the remittance industry, her expertise spans from business development, local and foreign remittance operations, project management to marketing. Ms. Gloria has earned the reputation of having a very deep understanding of the overseas Filipino market for she was once an overseas worker herself. BDO Unibank has been a consistent recipient of the BSP's 'Top Commercial Bank in Generating Remittances from overseas Filipinos' award beginning 2008 to 2010 and again, from 2013 to 2019. BDO Unibank, through Ms. Gloria, has been supporting the projects of the government for the overseas Filipino market particularly – financial inclusion. In 2014, Ms. Gloria and her team launched a grassroots marketing campaign in various provinces across the country. The campaign has evolved and went on to dig deeper into the overseas Filipino market and the underserved clients. Ms. Gloria holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

Edwin Romualdo G. Reyes
Non-Executive Director
Filipino, 64 years old

Edwin Romualdo G. Reyes is currently CFO and Treasurer of MapleTree Holdings, Inc., a family-owned corporation. Mr. Reyes previously served as an Executive Vice President of BDO Unibank, Inc. and Group Head for the Transaction Banking Group from June 2015 to September 2022, and was retained as a Consultant for the remainder of 2022 upon retirement. Reyes has more than thirty (30) years of experience in the banking industry. He was previously the Managing Director and Global Head of Depositary Receipts at Deutsche Bank Trust Company Americas, New York, USA (Deutsche Bank) from years 2006 to 2014. Mr.

Reyes also served as the Director and Global Head of Strategic Initiatives and Channel partners from years 2001 to 2006, and the Director & Global Head of Intermediaries, Corporate Trust & Agency Services from years 1999 to 2001. Prior to that, he was the Vice President of Capital Markets Trust Services at IBJ Whitehall Financial Services, New York, USA from years 1998 to 1999. Furthermore, Mr. Reyes also serves on the board of BDO Network Bank, Inc. (BDONB), as non-Executive Director. He holds a Master's Degree in Business Administration, major in Finance/Money and Financial Markets from Columbia University, Graduate School of Business in New York, USA. Mr. Reyes graduated cum laude from the University of the Philippines, with a degree of Bachelor of Science in Industrial Engineering and Operations Research.

Joseph Jason M. Natividad
Corporate Secretary
Filipino, 50 years old

Joseph Jason M. Natividad is the Corporate Secretary of BDO Network Bank, Inc. since January 4, 2020. He concurrently holds the position of Corporate Secretary of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.), the DSV/Agility Group of Companies in the Philippines, and serves as a member of the Board of Directors and Corporate Secretary of Gaia South, Inc. He is also the Assistant Corporate Secretary of BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with BDO Unibank, Inc., BDO Rental, Inc., and BDO Securities Corporation. Atty. Natividad is currently a partner at the Factoran and Natividad Law Offices. He has been in law practice for more than 20 years, mainly in the fields of corporate law and environmental law. He has a Bachelor's Degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.

Ma. Cecilia S. Santos
Assistant Corporate Secretary
Filipino, 57 years old

Ma. Cecilia S. Santos is the Assistant Corporate Secretary of BDONB since September 26, 2015. She is concurrently the First Vice President and Alternate Corporate Information Officer of BDO Unibank, Inc. She is the Corporate Secretary of BDO Finance Corporation, BDO Foundation, Inc., BDO Strategic Holdings, Inc., Ivory Homes, Inc., Averon Holdings Corporation, BDO Rental, Inc., Equimark-NFC Development Corporation, and Nashville Holdings, Inc. Further, she is also the Assistant Corporate Secretary of BDO Private Bank, Inc., and the Assistant Corporate Secretary as well as Alternate Corporate Information Officer of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.). She was formerly the Corporate Secretary of BDO Nomura Securities, Inc., Armstrong Securities, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Management Consultants, Inc., PCI Travel Corporation, The Executive Banclounge, Inc., and The Sign of the Anvil, Inc.

In addition, she is currently assigned at BDO Unibank Legal Services and Corporate Secretary Group as Head of two (2) Teams, to wit: IP/Legal Support Team providing legal assistance to BDO Unibank's Support Groups and Subsidiaries and in managing the BDO Group's Intellectual Property (BDO and BDO-related trademarks and domain names), and Corporate Secretariat Team providing corporate secretariat services to BDO Unibank and its Subsidiaries. In 2017, 2018, 2019, and 2020, she was featured in the World Trademark Review 300 as among the World's Top 300 Leading Trademark Professionals. She holds a Bachelor of Arts degree major in Economics from University of Sto. Tomas and finished law at San Beda College of Law (Dean's Lister).

The independent directors of the Bank are **Evelyn Cristina A. Cam, Ma. Leonora V. De Jesus** and **Jose S. Tanjuatco.**

Directorships in other reporting companies:

During the last five (5) years, the following directors are also directors of other reporting companies as listed below:

Name of Director	Name of Reporting Company	Position Held
Nestor V. Tan	BDO Unibank, Inc.	Director/President & CEO
Geneva T. Gloria	Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.)	Non-Executive Director

Duties and Responsibilities

The Board acts on behalf of the Bank and as such, it is vested with fiduciary duties, loyalty and care for which Board members should act on a fully informed basis, in good faith, with due diligence, and in the best interest of the Bank and the shareholders. They are collectively responsible for the sustainable long-term shareholder value of the institution, sustain its competitiveness, profitability and industry leading position in a manner consistent with its corporate objectives. It leads in establishing the tone and practices of good governance at the top. It sets the Bank's corporate values and high ethical standards of business conduct for itself and members of the Bank. Through its oversight, monitoring and review of functions, the Board ensures that the Bank is being run in a sound and prudent manner on a going concern basis in order to fulfill its obligations to all majority and minority shareholders while upholding and protecting the interest of different constituencies. The board shall fulfill certain functions, including the following:

- Review and guide corporate strategy, risk management policies and procedures, Special budgets and business plans, and monitor their implementation;
- Set financial objectives, monitor implementation and corporate performance; and
- Approve the issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments and material related party transactions.

The Bank recognizes that diversity among its directors will foster critical discussion and promote balanced decision by the Board by utilizing the differences in perspective of its directors. It views diversity at the Board level which includes differences in skills, experience, education, race, business, and other related expertise as an essential element in maintaining an effective board for strong corporate governance. The Bank also recognizes the important role of women with appropriate and relevant skills and experience that can contribute to the diversity of perspective in the Board. For 2020, women directors chaired two (2) of the board-level committees. The diversity representation of the Board is part of the Special performance and effectiveness evaluation of the board and committees.

The Board also acts on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, including to any changes.

All directors are required to familiarize themselves with their statutory/fiduciary roles and responsibilities in the Board and Committees, BDONB's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Business Conduct and Ethics, Personal Trading Policy and Corporate Governance Manual.

All directors are also encouraged to participate in continuing education programs at BDONB's expense to maintain a current and effective Board. The Board also received regular economic briefings. Below are the specific trainings each member of the Board had undergone:

All directors are also encouraged to participate in continuing education programs at BDONB's expense to maintain a current and effective Board. In 2022, all directors of BDO Network Bank, Inc. complied with the annual corporate governance training requirement of four (4) hours. nine (9) directors attended the in-house corporate governance seminar facilitated by BDO Unibank/ Prof. Kishore Mahbubani of the Asia Research Institute, National University of Singapore; and Mr. Michael Salvatico of S&P Global last July 20, 2022. It concentrated on the sustainability and the role of Boards and geopolitical risk. The Board also held strategic meetings and received regular economic briefings and briefings on new regulatory issuances.

Nomination of Directors:

The following are nominated for election to the Board of Directors during this year's Annual Stockholders' Meeting:

1. Nestor V. Tan
2. Jesus Antonio S. Itchon
3. Jaime C. Yu
4. Rolando C. Tanchanco
5. Jovasky Wei Shen Pang
6. Geneva T. Gloria
7. Evelyn Cristina A. Cam (Independent Director)
8. Ma. Leonora V. De Jesus (Independent Director)

The nominees for independent directors for this year's Annual Stockholders' Meeting are Ms. Evelyn Cristina A. Cam, and Ma. Leonora V. De Jesus. Ms. Cam was nominated by Patricio Silangan; while Ms. De Jesus was nominated by Noel M. Nalzaro. The aforementioned nominating shareholders are stockholders of BDONB, and to BDONB's knowledge, there is no relationship between the nominees for independent directors and the nominating stockholders.

As of date, there are only eight (8) directors who are nominated for election, which resulted to (3) vacancies in the Board of Directors.

Moreover, per SEC Rule 38.4, Paragraph (A), all covered companies shall have at least two (2) independent directors or at least twenty percent (20%) of the members of the board, but in no case less than two (2).

(b) Senior Executive Officers

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of BDONB. They are responsible for the implementation of the policies set by the Board. The following is a list of BDONB's key officers, and their business experiences during the past five (5) years:

Jaime A. Talingdan, 55, Filipino, holds the position of Senior Vice President and Head of the Community Banking Network Group of BDONB. Prior to joining BDONB, he was an Area Head of Branch Banking Group of BDO Unibank with a rank of First Vice President. He started his career in the same institution in 1988 with 34 years of banking experience. He was a Branch Head for 16 years and rose from Assistant Manager to Senior Assistant Vice President before his previous assignment as Area Head. He finished his bachelor's degree in Commerce major in Accounting from St. Mary's University, Bayombong, Nueva Vizcaya and Master of Business Administration degree from De La Salle University, Manila.

Karen L. Cua, 44, Filipino, is the Head of Micro, Small & Medium Enterprise Business (MSME) Business Unit of BDONB with a rank of Senior Vice President. She was Consumer Banking Head, Marketing Head, and Project Management Office Head at BOC Fullerton Community Bank in China, a JV between Bank of China and Temasek. Before that, she was with McKinsey & Co. where she primarily served financial service clients in Asia Pacific. She holds a Masters in Business Administration degree from Wharton Business School and a BS Management Engineering degree from Ateneo de Manila University.

Alberto O. Quiogue, 54, Filipino, is the Group Head of Salary Loans and joined BDONB in April 2016 with a rank of Senior Vice President. He holds a Bachelor of Science degree in Business with a minor in Political Science from the University of Nevada. He started his career as a Management Associate for Citibank US before moving back to the Philippines in 1996. He has broad experience in various Retail Products having worked for local and international banks in the Philippines and abroad where he held various positions in sales, credit risk, operations and project management.

Rogelio C. Basco, 68, Filipino, is the Business Development Officer of BDONB with a rank of First Vice President. He was a former Head of Business Systems Division- Process Improvement Department 3 of BDO Unibank Inc., Head of Systems and Methods Department 6 under Business Systems Division of Equitable PCI Bank Inc., Section Officer of Information Resource Management (IRM) of Philippine Commercial International Bank (PCIBank), Accounting Clerk of Insular Bank of Asia and America (IBAA).

Milott B. Requillo, CPA, 43, Filipino, is Senior Assistant Vice President of BDONB. She is the Chief Compliance Officer (CCO) and concurrently the Head for Legal and Compliance Department who administratively oversees both the Legal Services Unit and the Corporate Secretary's Office. She is also the Corporate Governance Officer of BDONB, and a Director of the Rural Bankers Association of the Philippines (RBAP) from 2018 to 2021 and Credit Information Corporation (CIC) since 2021 to 2022, representing both the BDONB and RBAP, respectively. Prior to her current position as CCO, she was previously an Internal Auditor of One Network Bank, Inc. for seven (7) years. All in all, she has been with BDONB for nineteen years since 2004. She earned her Bachelor's degree in Accounting from the University of the Immaculate Conception (UIC) in 2000 and thereafter obtained her license as a Certified Public Accountant (CPA), and earned her Juris Doctor Degree at St. Thomas College of Law in 2019.

Emily G. Gamir, 58, Filipino, is the head of the Operations Group of BDONB with a rank of Assistant Vice-President. She started her banking career when she joined One Network Bank in 1997. In her 24 years in

BDONB, she gained experience in branch operations and management, product development and management, account management, business development, policy development and marketing communications. She holds a bachelor's degree in Business Administration from the University of the Philippines.

Minda A. Lim, 62, Filipino, is the Treasury Group Head of BDONB with a rank of Vice-President since May 16, 2012. She held the rank of Asst. Vice-President in Treasury Group of China Bank Corporation from 2010 to 2012, but was a senior trader from 1990-2009. She holds a bachelor's degree in Banking and Finance from the University of Mindanao.

Niezl D. Gilvero, CPA, 38, Filipino, is Assistant Vice President. She is the Head of Accounting. Prior to this, she was the Chief Finance Officer of Rizal Mircrobank, Inc. (A Thrift Bank of RCBC), and Head of Audit and Risk Group of the Enterprise Bank, Inc. Ms. Gilvero finished her Bachelor's degree in Accountancy from the Cor Jesu College in year 2005.

NOTE*: BDONB is not dependent on the services of any particular employee and does not have any special arrangements to ensure that any employee will remain with BDONB and will not compete upon termination*.

(1) Significant Employees

BDONB's senior executive officers are enumerated under Item 5 (b). BDONB has no employee who is not an executive officer expected to make a significant contribution to BDONB's business.

(2) Family Relationships

No nominees to the Board have family relationships.

(3) Involvement of directors/executive officers in legal proceedings

To BDONB's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years in any legal proceedings which will have any material effect on BDONB, its operations, reputation, or financial condition.

To BDONB's knowledge, none of its directors and key officers has been subject of the following legal proceedings during the last five (5) years:

(a) bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
(b) a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
(c) to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated the securities or

commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

(4) Certain Relationships and Related Transactions

In the ordinary course of business, BDONB has transactions and arrangements involving BDONB's products and services, with certain directors, officers, stockholders and related interests (DOSRI), affiliates and other related parties. These loans and other transactions and arrangements involving BDONB's products and services, are made on substantially the same terms as those given to other non-related parties and businesses of comparable risks.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions, such as credit accommodations, products or services extended by BDONB to directors or officers in their personal capacity or to their company and related interests and other related parties. BDONB's Management Committee initially approves related party transactions. With respect to material related party transactions, these are elevated to the Related Party Transaction Committee or RPTC which in turn, endorses them to the Board for approval. Regarding non-material related party transactions, these are submitted to the Board for confirmation. All directors, except the interested party, could scrutinize the details of the transactions to ensure that these are done on an arms-length basis and in accordance with regulations. The details of the deliberations are included in the minutes of the Board and Related Party Transaction Committee meetings. Approved related party transactions are properly tagged for monitoring and reporting of exposures. On a quarterly basis, BDONB submits a report on its material related party transactions to the BSP in compliance with regulations.

The General Banking Law of 2000 and BSP regulations limit the amount of the loans granted by BDONB to the amount of individual loans to DOSRI, of which 70% must be secured, and should not exceed the amount of the deposit and book value of their investment in BDONB. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of BDONB, whichever is lower.

Please refer to the Audited Financial Statements as of December 31, 2022. Said Financial Statements is attached to this Information Statement as **Annex "A".**

(5) Disagreement with a Director

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Special shareholders' meeting because of a disagreement with BDONB on any matter relating to BDONB's operations, policies or practices.

Item 6. Executive Compensation

It is the objective of BDONB to attract, motivate and retain high-performing executives necessary to maintain its leadership position in the industry. To be competitive in the marketplace, BDONB offers a remuneration package composed of fixed salary, benefits and long-term incentives. Below are the aggregate compensation details of the directors and key executive officers of BDONB.

(1) President and four (4) most highly compensated executive officers

in million pesos	Year	Annual Compensation	Other Annual Compensation
President and four (4) most highly compensated executive officers"	2023 (estimate)	55.76	n.a.
	2022	54.14	n.a.
	2021	47.37	n.a.

Year	Name	Position/Title
2022	Jesus Antonio S. Itchon	President
	Ramon T. Militar *	Executive Vice President
	Karen L. Cua	Senior Vice President
	Alberto O. Quiogue	Senior Vice President
	Dulce Amor E. Alimbuyugen	First Vice President
2021	Jesus Antonio S. Itchon	President
	Ramon T. Militar	Executive Vice President
	Karen L. Cua	Senior Vice President
	Alberto O. Quiogue	Senior Vice President
	Dulce Amor E. Alimbuyugen	First Vice President

**Retired effective December 31, 2022.*

The above compensation includes the usual bonus paid to bank officers. Except for salaries, allowances, retirement benefits provided under BDONB's retirement plan, and company-wide benefit extended to all qualified employees under BDONB's stock option plan, there is no separate stock option, stock warrant or other security compensation arrangement between BDONB and its individual officers.

(2) Compensation of directors and officers as a group

in million pesos	Year	Annual Compensation	Other Annual Compensation
Aggregate Officers (from senior vice presidents) & Directors	2023 (estimate)	151.20	None
	2022	146.80	None
	2021	111.93	None

Each external director, that is, those who are not holding executive positions in BDONB or its parent company, BDO Unibank, Inc., receives a reasonable *per diem* for attendance in every Board meeting and Board Level Committee meeting. The Parent's Bank Compensation Committee is authorized to fix and/or increase the fees and other remuneration of any Director or any other officer of BDONB as may be deemed necessary, subject to Board approval. The Board of Directors of BDONB approves all compensation and remuneration schemes for all the executive directors and senior officers of BDONB. As provided by law, the total compensation of directors shall not exceed ten percent (10%) of the net income before income tax of BDONB during the preceding year.

Each external director receives a per diem allowance of ₱10,000 for attending board meetings and ₱5,000 for Board level committee meetings. There is no distinction on the fee for a committee chairman and member. The above table contains the details of the compensation of directors and officers of BDONB. In view of possible security risks, BDONB opted to disclose these on an aggregate basis as a group. Other than these fees, the non-executive directors do not receive any share options or profit sharing.

BDONB may grant to the directors any compensation other than *per diems* by the approval of the shareholders representing at least a majority of the outstanding capital stock.

BDONB has Board Level Committees, particularly the Corporate Governance Committee, that determines and proposes for management and Board approval the salaries and compensation schemes for all executive directors and senior officers of BDONB. The Board may discuss matters pertaining to the determination of salaries and compensation schemes and proposals for any changes in the remuneration of executive officers of BDONB.

(3) Employment contracts and termination of employment and change-in-control arrangements

There are no contracts of employment between BDONB and the named directors and executive officers, as well as compensatory plans or arrangements, including payment to be received from BDONB with respect to any named director or executive.

Item 7. Independent Public Accountants

BDONB's present external auditor, Punongbayan & Araullo, Grant Thornton will be recommended to the shareholders for re-appointment as the external auditor for the ensuing year. Representatives of the said firm are expected to be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the shareholders.

Punongbayan & Araullo, Grant Thornton was first appointed external auditor of BDONB in 2011 and has not resigned, been dismissed, or its services ceased since its appointment. BDONB has had no material disagreement with Punongbayan & Araullo, Grant Thornton on any matter of accounting principle or practices or disclosures in BDONB's financial statements.

For 2016, BDONB engaged Mr. Ramilito L. Nañola, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements of the said year. BDONB engaged Mr. Romualdo V. Murcia III, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements starting year 2011 to 2015 Previously, BDONB engaged Mr. Ramilito L. Nañola, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements from 2006 to 2010 and 2016-2022. BDONB is compliant with the rotation requirement of its external auditor's certifying partner as required under the Revised SEC Rule 68, Paragraph II, Section 3 (b) (IX).

The Audit Committee endorses for approval of Board of Directors (BOD) the appointment and removal of BDONB's internal and external auditor.

Audit and Audit-Related Fees

The aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the external auditor was, P965,552.20 for the year 2022, P1,135,551.77 for the year 2021, and P873,921.05 for the year 2020. These fees cover services rendered by the external auditor for audit of the financial statements of BDONB and other services in connection with statutory and regulatory filings for fiscal years 2022, 2021 and 2020.

Tax Fees and Other Fees

No tax fees and other fees were paid to Punongbayan & Araullo for the last three (3) fiscal years.

It is the policy of BDONB that all audit findings are presented to the Board Audit Committee which reviews and makes recommendations to the Board of Directors on actions to be taken thereon. The Board of Directors passes upon and approves the Audit Committee's recommendations.

The members of the Audit Committee of BDONB are as follows:

1. Ma. Leonora V. de Jesus - Chairperson (Independent Director)
2. Jose S. Tanjuatco - Member (Lead Independent Director)
3. Evelyn Cristina A. Cam - Member (Independent Director)

Item 8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

No action will be presented for shareholders' approval at this year's Annual stockholder's meeting which involves authorization or issuance of any securities.

Item 10. Modification or Exchange of Securities

No action will be presented for shareholders' approval at this year's Special stockholders meeting which involves the modification of any class of BDONB's securities, or the issuance of one class of BDONB's securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

The Audited Financial Statements of BDONB as of December 31, 2022 will be attached to the Definitive Information Statement. The Management Report, incorporating the Management's Discussion and Analysis is attached as **Annex B**.

BDONB has had no material disagreement with Punongbayan & Araullo on any matter of accounting principle or practices or disclosures in BDONB's financial statements.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action will be presented for shareholders' approval at the ASM in respect of (1) the merger or consolidation of BDONB into or with any other person, or of any other person into or with BDONB, (2) acquisition by BDONB or any of its shareholders of securities of another person, (3) acquisition by BDONB of any other ongoing business or of the assets thereof, (4) the sale or transfer or all or any substantial part of the assets of BDONB, or (5) liquidation or dissolution of BDONB.

Item 13. Acquisition or Disposition of Property

No action will be presented for shareholders' approval at this year's meeting in respect of any acquisition or disposition of property of BDONB.

Item 14. Restatement of Accounts

No action will be presented for shareholders' approval at this year's meeting which involves the restatement of any of BDONB's assets, capital or surplus account.

D. OTHER MATTERS

Item 15. Action with Respect to Reports and Other Proposed Action

At the annual meeting, shareholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management from the last annual stockholders' meeting held the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, including significant related party transactions, as follows:

Date of Board of Directors Meeting	Subject
January 07, 2022	1. Proposed revision to the Corporate Governance Committee Terms of Reference; 2. Proposed revision to the Corporate Governance Manual 3. Material RPT: Purchase of Sodexo Premium Gift Certificate involving Php 100 and Php 500 denominations which has a total exposure amount of Php 1,247,557.56. 4. Re-assignment of the Branch-Lite License of BDONB Cebu-Talisay Loan Office to BDONB Dingras Ilocos Norte Loan Office 5. Consolidation of BDONB Cebu-Minglanilla Loan Office with BDONB Cebu- Talisay Loan Office 6. BDO Unibank to Cross-sell BDONB Kabayan Loan to BDO Unibank Clients 7. Request to revise BDONB Board Resolution No. 2020-073 adopted on May 30, 2020 on the Filing of Legal Cases 8. BDONB's authorized representatives for the renewal of Davao Head Office Business Permit 9. BDONB's authorized representatives to transact with the Bureau of Internal Revenue (BIR) 10. Schedule of 2022 BDONB Board of Directors and Annual Stockholders' Meetings
January 28, 2022	1. Revisions to the MTTP- Retention Policy Period 2. Annual Report on Non-Material RPTs as of December 2021 3. Request for approval of Cash Advance Extended to BDONB Employees Affected by Typhoon Odette with reference to Circular No. 1017 re: Adoption of Policy Framework on the Grant of Regulatory Relief to Banks Affected by Calamities 4. Updating of BDONB authorized signatories 5. Disposal of bank records which have reached the maximum retention period 6. BSP's approval of BDONB's application for bank license upgrade to Thrift Bank (Notation)
February 18, 2022	1. External Audit Report: Audit Results for BDO Network Bank, Inc. for the year ended December 31, 2021 2. Lease of Point-of-Sale (POS) terminals by BDONB to BDO amounting to Php 5,284,079.20 3. Amendment to the relocation dates of BDO Network Bank Rizal-Antipolo and Cavite- Dasmariñas branches 4. Relocation of existing BDO Network Bank Branches 5. Relocation of Existing BDO Network Bank Batangas- Rosario Branch-Lite Unit 6. Amendment to the relocation dates of BDO Network Bank Batangas-Bauan and Batangas- Tanauan Branch-Lite Units 7. Credit line for Neuroncredit Financing Company, Inc. (NCFC) 8. Sale of Bank-owned vehicles to BDONB Officers (DOSRI)

	9. 2022 Schedule of the Annual Stockholders' Meeting and Record Date of Stockholders of BDONB
March 30, 2022	1. 5-Year Plan of BDONB 2. Capital Infusion- Issuance of up to Php 2-Billion worth of new common shares in favor of the following shareholders: • BDO Unibank, Inc.- up to Php 1,700,000,000.00; • Osmanthus Investment Holdings Pte. Ltd.- up to Php 300,000,000.00 3. Revision to the Money Laundering and Terrorism Financing Prevention Program (MTPP)- Client Risk Profiling Template 4. Revision to various sections of the Money Laundering and Terrorism Financing Prevention Program (MTPP) 5. Renewal of Group Life Insurance coverage of BDONB with BDO Life Assurance Co., Inc. with total exposure amount of Php 7,723,243.00 6. Renewal of BDONB Salary Loan Group's Credit Group Life Insurance with BDO Life for its borrowers with total exposure amount of Php 123,000,000.00 7. Nomination of Directors for the year 2022 8. Interlocking Directorship of Ms. Geneva T. Gloria as Non-Executive Director of BDO Leasing and Finance, Inc. 9. Proposed application of licenses for 3rd and 4th quarter branch expansion sites 10. Proposed relocation of approved but unopened licenses 11. Proposed extension of licenses 12. Credit line for Neuroncredit Financing Company, Inc. (NCFC) 13. Relocation of two (2) BDONB loan offices 14. Sale of one (1) ROPA with TCT No. T-199104 to Sps. Jimmy D. Reyes and Joy E. Reyes 15. BDONB's authorized representatives to transact with the Bureau of Internal Revenue (BIR) 16. Updating of BDONB Authorizers for BDO Business Online Banking 17. Disposal of bank records which have reached the maximum retention period
April 29, 2022	1. Replies to 2021 BSP Report of Examination Directives 2. Amendment to the relocation date of the branches and loan offices 3. Reassignment of branch-lite license of Malay-Aklan to Benito Soliven-Isabela 4. Relocation/transfer of approved but not yet opened branch-lite licenses 5. Disposal of bank records which have reached the maximum retention period 6. Sale of bank-owned vehicle to one (1) BDONB officer (DOSRI)
May 27, 2022	1. Cross-selling of Micro-Insurance of BDONB with BDO Life 2. Extension and relocation of branch-lite licenses a. Relocate/transfer the approved but unused branch-lite license of Alfonso, Cavite to Limay, Bataan

	b. Extension for an additional period of one (1) year for two (2) branch-lite licenses with prior approval dated July 07, 2021 3. Consolidation of BDONB Bocaue- Lolomboy Loan Office with Bulacan Branch and Relocation of Branch-Lite License a. Consolidation of BDONB Bocaue-Lolomboy Loan Office with Bulacan-Bucaue Branch b. Relocation/transfer of branch-lite license of Lolomboy, Bocaue to Porac-Pampanga 4. Consolidation of BDONB Aklan- Malay Loan Office with BDONB Aklan-Nabas Branch (New) and Relocation of Branch Lite License a. Consolidation of BDONB Aklan- Malay Loan Office with BDONB Aklan-Nabas Branch (new branch with CBNG, MSME and SLG) b. Relocation/ Transfer of the Branch-Lite License of Malay- Aklan to Benito Soliven, Isabela 5. Relocation of BDONB Sorsogon, Sorsogon City Loan Office 6. Appointment of Authorized Representatives to File Small Claims Cases and to Execute and Sign Compromise Agreements in relation thereto on behalf of BDO Network Bank, Inc. 7. Operations Manual on Record Keeping of Bank Deposits 8. Amendment to BDONB Financial Assistance Program to Officers and Employees 9. Write-off of various Remedial Management Unit (RMU) Accounts 10. Disposal of bank records which have reached the maximum retention period 11. Amendment to the Secretary's Certificate for BDONB's Authorized Representatives to Transact with the Bureau of Internal Revenue (BIR)
June 14, 2022	1. BDONB's purchase of SM or Sodexo Gift Certificates with program budget total of Php 20-Million for the year 2022 2. Related Party Transaction with Star Appliance with total exposure amount for the delivery charge of Php 20,858.00 3. Non-Material related party transaction- Renewal of the ATM site lease agreement between Phil Agro Industrial Corp. (lessor) and BDONB (lessee) 4. 2021 BDONB SEC Annual Corporate Governance Report (SECACGR) 5. Adoption of BDO's Information Security Strategic Plan (ISSP) and Information Security Program (ISP) and Revisions to the BDONB Business Continuity Plan (BCP) Framework and Policy Manual v.5. 6. Amendment to the relocation date of Negros Oriental-Bais Branch 7. Appointment of Authorized Representatives to File Small Claims Cases and to Sign Compromise Agreements in relation thereto on behalf of BDO Network Bank, Inc. 8. Write off of Salary Loan accounts 9. Write off of MSME Loan accounts 10. Application of collateralized overdraft credit line with Bangko Sentral ng Pilipinas 11. Appointment of Ms. Emily G. Gamir as the new Operations Group Head of BDONB

	12. Disposal of Bank records which have reached the maximum retention period
July 29, 2022	1. Acquisition by BDO Unibank, Inc. of the ATM Acquiring Business and Services of BDO Network Bank, Inc. 2. Renewal of BDONB's Contract with BDO Insurance Brokers, Inc. with total exposure amount of Php 6,012,623.31 3. 2021 Internal Audit Policy Statement 4. Relocation of BDO Network Bank Iloilo-Banate Branch 5. Relocation/transfer of approved but not yet opened branch-lite licenses 6. Amendment to the relocation date of BDO Network Bank Iloilo-Sta. Barbara 7. Relocation of two (2) Loan offices - BDO Network Bank Pangasinan-Malasiqui and BDO Network Bank Tarlac, Paniqui 8. Renewal of Short Term Loan Line with Land Bank of the Philippines (LBP) 9. Proposed Schedule of the Special Stockholders' Meeting- September 14, 2022, Wednesday, at 11:00 A.M. via remote communication and Record Date of Stockholders of BDO Network Bank, Inc.- August 03, 2022 10. Resignation of Independent Director Atty. Jesse Hermogenes T. Andres
August 26, 2022	1. Increase in exposure limit for consumption industry and salary loans 2. Increase in Maximum Cumulative Outflow (MCO) and Earnings-at-Risk (EaR) Limits 3. Proposed revisions to the Board Audit Committee (BAC) Terms of Reference (TOR) 4. Replies to the BAC ROE Directives 5. Write-Off of 991 MSME Loan Accounts with total Write-Off Amount of P113,865,744.34. 6. Amendment to the Relocation Date of Pampanga, Apalit Loan Office 7. Application of Credit Line with various banks 8. Proposed Schedule of the Special Stockholders' Meeting in Davao City on October 05, 2022, at 2:30 P.M. with Record Date of Stockholders of BDO Network Bank, Inc. as August 23, 2022, Wednesday 9. Proposed Amendments to the By-Laws of BDO Network Bank
October 5, 2022	1. Additional Capital Infusion of up to Php 3-Billion in BDO Network Bank 2. Approval of credit facilities granted by BDO Unibank, Inc. 3. Relocation of approved but not yet opened Branch-Lite Units 4. Amendment to the Relocation date of BDONB Camarines Norte- Daet and Ilocos Norte- Laoag Branches 5. Credit Line for Neuroncredit Financing Company, Inc. (NCFC) 6. Revised Approving Authorities for Salary Loans Group's (SLG) Accreditation, Credit Limit Assignment of Institutions and Individual Salary Loans Approvals 7. Application for an additional Credit Facility with Land Bank of the Philippines (LBP)

October 28, 2022	1. BDO Unibank, Inc. (BDO) to Cross-sell Loan Products of BDO Network Bank, Inc. (BDONB) 2. Amendment on Approving Authorities for MSME Special Payment Arrangement (SPA) and Restructuring 3. Temporary Closure of BDONB Bacoor Loan Office 4. Amendment of Approving Authorities of Salary Loans Group (SLG) Restructuring and Special Payment Arrangement (SPA) 5. Disposal of bank records which have reached the maximum retention period
December 02, 2022	1. Approval to Increase exposure amount of BDONB SLG Borrower's Credit Life Insurance from Php 123.0 Million to Php 198.0 Million for the year 2022 2. Relocation of Existing BDONB Branch: Quezon-Lucban 3. Extension of nine (9) branch-lite licenses 4. Approval on the Relocation of Approved but not yet Opened Branch-Lite Licenses 5. Approval on the Relocation of Approved but not yet Opened Branch-Lite Unit 6. Write-Off of MSME Loan Accounts 7. Re-opening of BDONB Bacoor Loan Office 8. Write-Off of Salary Loan Accounts 9. Write-Off of RMU Accounts 10. Sale of one (1) ROPA 11. Signatories for foreclosure of mortgages 12. Updating of BDONB authorized signatories (Generic and for depository banks) 13. Updating of Authorized Users of BSP PhilPaSS Smart Card for BDO Network Bank, Inc. 14. Schedule of 2023 BDONB Board of Directors and Annual Stockholders' Meetings

Item 16. Matters Not Required to be Submitted

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, By-laws or Other Documents

There is no action to be taken with respect to any amendment of the charter, by-laws, or other documents.

Item 18. Other Proposed Action

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

Item 19. Voting Procedures

At the 2023 Annual Stockholders' Meeting, holders of a majority of BDONB's issued and outstanding voting shares who are present via remote communication or represented by proxy, shall constitute a quorum for the transaction of business. A majority of votes shall decide any matter submitted to the shareholders at the meeting, except in those cases where the law requires a greater number.

In the election of directors, the shareholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement. BDONB's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the shareholders.

BDONB's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the shareholders, including the election of directors. Punongbayan & Araullo, Grant Thornton, BDONB's external auditor, an independent party, has been appointed to validate the votes.

Stockholders as of March 15, 2023 who have successfully registered their intention to participate in the special meeting via remote communication, and to vote *in absentia*, duly verified and validated by the BDONB, shall be provided with log-in credentials to securely access the voting portal.

*The detailed guidelines for participation and voting for this meeting are set forth in the "**Guidelines for Participation via Remote Communication, In-Person, and Voting in Absentia**" included in this Information Statement*

(Signature page follows)

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in ______________ on ____________________.

BDO NETWORK BANK, INC

Joseph Jason M. Natividad
Corporate Secretary

BDO NETWORK BANK, INC.
2023 ANNUAL STOCKHOLDERS' MEETING
April 28, 2023 at 11:00 a.m.

Guidelines for Registering, Participating via Remote Communication and Voting in Absentia

The 2023 Annual Stockholders' Meeting **(ASM)** of BDO Network Bank, Inc. **(BDONB)** is scheduled on **April 28, 2023, Friday,** at **11:00 a.m**., with **March 15, 2023 as the record date** set by BDONB's Board of Directors for the determination of stockholders entitled to the notice of, to attend, and to vote at such meeting and any adjournment thereof.

The ASM will be broadcasted via livestreaming accessible to registered participants. Stockholders will be allowed to register, attend, participate and vote via remote communication or *in absentia* pursuant to Sections 23 and 57 of the Revised Corporation Code of the Philippines.

Step 1. Pre-ASM Registration/ Validation/ Voting Procedures

Stockholders must notify the Corporate Secretary of their intention to participate in the ASM via remote communication and to exercise their right to vote *in absentia* by sending the documentary requirements with transmittal letter addressed to the Office of the Corporate Secretary, 6/F, BDONB Corporate Center, Km. 9, Sasa, Davao City 8000 VIA COURIER/PERSONAL DELIVERY OR scanned copies of these documents by EMAIL to <corporate_secretary@bdonetworkbank.com.ph> with return-receipt.

The following complete/accurate documentary requirements with transmittal letter MUST BE SENT TO AND RECEIVED by the Office of the Corporate Secretary no later than April 27, 2023.

- ***For Certificated Individual Stockholders***

    1. A clear copy of the stockholder's valid government-issued ID (such as passport, driver's license, or unified multipurpose ID) showing photo, signature and personal details, preferably with residential address
    2. Stock certificate number/s
    3. A valid and active e-mail address and contact number of stockholder
    4. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

    If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.

- ***For Certificated Multiple Stockholders or Joint owners***

    1. A clear copy of the ALL stockholders' valid government-issued IDs (such as passport, driver's license, or unified multipurpose ID) showing photo, signature and personal details, preferably with residential address

2. Stock certificate number/s
3. A valid and active email-address and contact number of authorized representative
4. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need not be notarized)
5. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

   If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.

- ***For Certificated Corporate/Partnership Stockholders***

1. Secretary's Certification of Board resolution attesting to the authority of representative to participate by remote communication for, and on behalf of the Corporation/Partnership
2. Stock certificate number/s
3. A clear copy of the valid government-issued ID (such as passport, driver's license, or unified multipurpose ID) of stockholder's authorized representative showing photo, signature and personal details, preferably with residential address
4. A valid and active email-address and contact number of authorized representative
5. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

   If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.

Stockholders will receive an e-mail reply from BDONB's Office of the Corporate Secretary. The Office of the Corporate Secretary's email reply will either confirm successful registration and provide the link/meeting details to BDONB's 2022 ASM OR require submission of deficient documents. If you have not received any email reply within three (3) business days from receipt, please call tel. nos. (082) 233 – 7777.

Important Reminder: Please refrain from sending duplicate and inconsistent information/documents as this can result in failed registration. All documents/information shall be subject to verification and validation by the Corporate Secretary.

Step 2: Voting in Absentia Procedure

Stockholders who have successfully registered shall be notified via email of their log-in credentials for the ASM. Stockholders can then cast their votes for specific items in the agenda by accessing and accomplishing BDONB's online ballot. The ballot form can be accessed from BDONB's website <www.bdonetworkbank.com.ph/ASMballot>.

1. Upon accessing the ballot, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended as Annex "1" to the Notice of Meeting.

1.1. A stockholder has the option to vote "Yes", "No", or "Abstain" on each agenda item for approval.

2. Once the stockholder has finalized his vote, he can proceed to submit his vote by sending a JPG or PDF form to <corporate_secretary@bdonetworkbank.com.ph> no later than April 27, 2023.

   If sending via email, should be clear scanned copies in JPG or PDF format, with each file size no larger than 2MB.

Participation through Remote Communication

The ASM will be livestreamed and stockholders who have successfully registered can participate via remote communication. Details of the meeting will be sent to stockholders in the emails provided to BDONB. Instructions on how to access the livestream will also be posted at <www.bdonetworkbank.com.ph/2023ASM>.

Video recordings of the ASM will be adequately maintained by BDONB and will be made available to participating stockholders upon request. Stockholders may access the recorded webcast of the ASM by sending an email request addressed to <bdonbcorsec@bdonetworkbank.com.ph>.

Open Forum

During the virtual meeting, BDONB will have an Open Forum, during which, the meeting's moderator will read and where representatives of BDONB shall endeavor to answer as many of the questions and comments received from stockholders as time will allow.

Stockholders may send their questions in advance by sending an email bearing the subject "ASM 2023 Open Forum" to <bdonbcorsec@bdonetworkbank.com.ph> not later than 10:00 a.m. of April 21, 2023. A section for stockholder comments/questions or a "chatbox" shall also be provided in the livestreaming platform.

Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by BDONB through the stockholders' email addresses.

For complete information on the ASM, please visit <www.bdonetworkbank.com.ph/2023ASM>.

For any clarification or other ASM-related queries, stockholders may contact BDONB at 082-233-7772 or send an email to the Office of the Corporate Secretary at <bdonbcorsec@bdonetworkbank.com.ph>.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in City of Makati on 5 April 2023.

BDO NETWORK BANK, INC

Joseph Jason M. Natividad
Corporate Secretary

BDO NETWORK BANK, INC.
2023 ANNUAL STOCKHOLDERS' MEETING
April 28, 2023 at 11:00 a.m.

Guidelines for Registering, Participating via Remote Communication and Voting in Absentia

The 2023 Annual Stockholders' Meeting **(ASM)** of BDO Network Bank, Inc. **(BDONB)** is scheduled on **April 28, 2023, Friday,** at **11:00 a.m**., with **March 15, 2023 as the record date** set by BDONB's Board of Directors for the determination of stockholders entitled to the notice of, to attend, and to vote at such meeting and any adjournment thereof.

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- ***For Certificated Individual Stockholders***

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    2. Stock certificate number/s
    3. A valid and active e-mail address and contact number of stockholder
    4. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

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    1. A clear copy of the ALL stockholders' valid government-issued IDs (such as passport, driver's license, or unified multipurpose ID) showing photo, signature and personal details, preferably with residential address

2. Stock certificate number/s
3. A valid and active email-address and contact number of authorized representative
4. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need not be notarized)
5. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2023proxyform>.

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1. Secretary's Certification of Board resolution attesting to the authority of representative to participate by remote communication for, and on behalf of the Corporation/Partnership
2. Stock certificate number/s
3. A clear copy of the valid government-issued ID (such as passport, driver's license, or unified multipurpose ID) of stockholder's authorized representative showing photo, signature and personal details, preferably with residential address
4. A valid and active email-address and contact number of authorized representative
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Stockholders may send their questions in advance by sending an email bearing the subject “ASM 2023 Open Forum” to <bdonbcorsec@bdonetworkbank.com.ph> not later than 10:00 a.m. of April 21, 2023. A section for stockholder comments/questions or a “chatbox” shall also be provided in the livestreaming platform.

Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by BDONB through the stockholders’ email addresses.

For complete information on the ASM, please visit <www.bdonetworkbank.com.ph/2023ASM>.

For any clarification or other ASM-related queries, stockholders may contact BDONB at 082-233-7772 or send an email to the Office of the Corporate Secretary at <bdonbcorsec@bdonetworkbank.com.ph>.

Audited Financial Statements

BDO Network Bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **BDO NETWORK BANK, INC.** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

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

NESTOR V. TAN	**JESUS ANTONIO S. ITCHON**	**NIEZL D. GILVERO**
Chairman of the Board	President	Head, Comptrollership

Signed this 17th day of February 2023.

SUBSCRIBED AND SWORN to before me on this 31 day of MAR 2023; affiant exhibiting to me their Competent Evidence of Identity (CEI) as follows:

Name	CEI Number	Date and Place of Issue
1. Nestor V. Tan	P5830111B	11-23-2020/NCR East
2. Jesus Antonio S. Itchon	P7922198B	10-19-2021/Manila
3. Niezl D. Gilvero	P2988528C	01-19-2023/Davao

Doc. No. 39;
Page No. 08;
Book No. IV;
Series No. 2023;

ATTY. JAYSON G. TAN
Roll of Attorneys No. 72337
IBP No. 269889 • 01/05/2023 • Davao City
PTR No. 7928859 • 01/04/2023 • Davao City
Notary Public for Davao City
Until 31 December 2024
Serial No. 2023-240-2024
Legal Services Unit, BDONB Center, Km 9, Sasa, Davao City
MCLE Compliance No. VII-0010372 valid until 04/14/25

BDO Network Bank, Inc.
Km. 9, Sasa, Davao City
8000 Philippines
bdonetworkbank.com.ph

P&A Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors and the Stockholders
BDO Network Bank, Inc.
(A Subsidiary of BDO Unibank, Inc.)
BDONB Center, Km. 9, Sasa, Davao City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2022 and 2021 required by the Bangko Sentral ng Pilipinas as disclosed in Note 26 to the financial statements, and the supplementary information for the year ended December 31, 2022 by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 9566640, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 90741-SEC (until financial period 2025)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-019-2020 (until Dec. 21, 2023)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 17, 2023

BDO NETWORK BANK, INC.
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes		2022		2021
RESOURCES					
CASH AND OTHER CASH ITEMS	6	**P**	**2,186,619,439**	P	2,590,833,675
DUE FROM BANGKO SENTRAL NG PILIPINAS	6, 7		**690,117,513**		142,010,944
DUE FROM OTHER BANKS	6, 8		**5,770,790,647**		3,402,986,140
INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - Net	9		**4,758,551,931**		6,334,398,148
INVESTMENT SECURITIES AT AMORTIZED COST	10		**4,134,577,856**		2,353,260,534
LOANS AND OTHER RECEIVABLES - Net	11		**66,509,712,116**		36,759,519,912
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12		**1,925,825,405**		1,669,035,181
RIGHT-OF-USE ASSETS - Net	13		**509,868,792**		399,181,022
INVESTMENT PROPERTIES - Net	14		**2,257,697**		2,822,014
DEFERRED TAX ASSETS	24		**438,276,179**		581,917,677
PREPAYMENTS AND OTHER RESOURCES - Net	15		**303,200,195**		502,670,791
TOTAL RESOURCES		**P**	**87,229,797,770**	P	54,738,636,038
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	**P**	**67,110,649,688**	P	47,039,152,585
BILLS PAYABLE	18		**6,533,045,833**		-
LEASE LIABILITIES	13		**541,621,897**		422,181,881
ACCRUED EXPENSES AND OTHER LIABILITIES	19		**1,530,920,299**		1,058,136,549
INCOME TAX PAYABLE			**4,060,793**		-
Total Liabilities			**75,720,298,510**		48,519,471,015
EQUITY	20		**11,509,499,260**		6,219,165,023
TOTAL LIABILITIES AND EQUITY		**P**	**87,229,797,770**	P	54,738,636,038

See Notes to Financial Statements.

BDO NETWORK BANK, INC.
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
INTEREST INCOME			
Loans and other receivables	11	**P 5,725,204,320**	P 4,127,494,580
Investment securities	9, 10	**405,889,573**	199,347,724
Deposits with other banks	8	**66,441,229**	16,204,238
		6,197,535,122	4,343,046,542
INTEREST EXPENSE			
Deposit liabilities	17	**812,387,934**	248,777,966
Bills payable	18	**61,251,389**	-
Lease liabilities	13	**27,339,271**	17,024,792
Post-employment defined benefit obligation	23	**23,579,217**	8,787,614
		924,557,811	274,590,372
NET INTEREST INCOME		**5,272,977,311**	4,068,456,170
IMPAIRMENT LOSSES	16	**733,801,324**	236,906,200
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**4,539,175,987**	3,831,549,970
OTHER INCOME			
Service charges, fees and commissions	2	**3,840,310,375**	2,029,437,901
Others	22	**96,735,441**	60,601,569
		3,937,045,816	2,090,039,470
OTHER OPERATING EXPENSES			
Compensation and employee benefits	23	**3,222,230,133**	3,054,465,610
Taxes and licenses		**876,442,507**	485,200,613
Occupancy and equipment-related expenses	12, 13, 14, 15	**806,893,064**	649,025,272
Fees and commissions	21	**545,126,024**	247,378,773
Transportation and travel		**304,442,655**	199,404,453
Security, messengerial and janitorial services		**259,257,731**	231,088,961
Insurance		**279,619,414**	196,390,448
Management and other professional fees		**93,860,752**	1,343,402
Stationery and supplies		**84,063,256**	80,346,947
Advertising and publicities		**69,368,389**	25,098,707
Representation and entertainment		**33,276,380**	45,699,633
Communications, telephone and telegraph		**25,113,299**	40,544,598
Fuel and lubricants		**12,327,893**	8,701,237
Banking fees		**11,297,513**	8,343,326
Others	14	**90,413,423**	59,163,103
		6,713,732,433	5,332,195,083
PROFIT BEFORE TAX		**1,762,489,370**	589,394,357
TAX EXPENSE	24	**628,439,668**	206,081,674
NET PROFIT		**P 1,134,049,702**	P 383,312,683

See Notes to Financial Statements.

BDO NETWORK BANK, INC.
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
NET PROFIT		**P 1,134,049,702**	P 383,312,683
OTHER COMPREHENSIVE LOSS			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment defined benefit obligation	23	**41,426,736**	(142,565,710)
Tax income (expense)	24	**(10,356,684)**	17,615,744
		31,070,052	(124,949,966)
Item that will be reclassified subsequently to profit or loss:			
Fair valuation of financial assets at fair value through other comprehensive income (FVOCI):	9		
Fair value losses during the year		**(424,785,517)**	(208,376,725)
Fair value gain on matured FVOCI reclassified to profit or loss		**-**	20,153,279
		(424,785,517)	(188,223,446)
Other Comprehensive Loss - net of tax		**(393,715,465)**	(313,173,412)
TOTAL COMPREHENSIVE INCOME		**P 740,334,237**	P 70,139,271

See Notes to Financial Statements.

BDO NETWORK BANK, INC.
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Note	Capital Stock	Additional Paid-in Capital	Other Reserves	Revaluation Reserves	Surplus	Total
Balance at January 1, 2022		P 3,468,500,540	P 2,338,371,238	P 241,351,011	(P 460,169,646)	P 631,111,880	P 6,219,165,023
Issuance of shares during the year	20	1,432,065,040	3,117,934,960	-	-	-	4,550,000,000
General loan loss appropriation	20	-	-	166,624,298	-	(166,624,298)	-
Appropriation for self-insurance	20	-	-	4,717,503	-	(4,717,503)	-
Total comprehensive income (loss) for the year		-	-	-	(393,715,465)	1,134,049,702	740,334,237
Balance at December 31, 2022		**P 4,900,565,580**	**P 5,456,306,198**	**P 412,692,812**	**(P 853,885,111)**	**P 1,593,819,781**	**P 11,509,499,260**
Balance at January 1, 2021		P 3,468,500,540	P 2,338,371,238	P 159,525,676	(P 146,996,234)	P 329,624,532	P 6,149,025,752
General loan loss appropriation	20	-	-	79,325,335	-	(79,325,335)	-
Appropriation for self-insurance	20	-	-	2,500,000	-	(2,500,000)	-
Total comprehensive income (loss) for the year		-	-	-	(313,173,412)	383,312,683	70,139,271
Balance at December 31, 2021		P 3,468,500,540	P 2,338,371,238	P 241,351,011	(P 460,169,646)	P 631,111,880	P 6,219,165,023

See Notes to Financial Statements.

BDO NETWORK BANK, INC.
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,762,489,370	P 589,394,357
Adjustments for:			
Impairment losses	16	733,801,324	236,906,200
Depreciation and amortization	12, 13, 14, 15	378,740,265	388,975,010
Gain on disposal of bank premises, furniture, fixtures and equipment	12	(25,539,912)	(3,660,381)
Income from disposal of investment properties	22	(1,269,456)	(1,474,662)
Operating profit before changes in resources and liabilities		2,848,221,591	1,210,140,524
Increase in loans and other receivables		(30,483,894,320)	(6,675,554,666)
Increase (decrease) in prepayments and other resources		224,449,460	(76,157,342)
Increase in deposit liabilities		20,071,497,103	13,568,695,984
Increase in accrued expenses and other liabilities		575,461,875	45,806,854
Cash generated from (used in) operations		(6,764,264,291)	8,072,931,354
Cash paid for income taxes		(491,094,061)	(130,183,212)
Net Cash From (Used in) Operating Activities		(7,255,358,352)	7,942,748,142
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of financial assets at amortized cost	10	(3,900,000,000)	(2,011,350,000)
Proceeds from sale and maturity of financial assets at FVOCI	9	2,688,118,000	6,392,174,000
Proceeds from matured financial assets at amortized cost	10	2,115,000,000	-
Acquisitions of financial assets at fair value through other comprehensive income (FVOCI)	9	(1,568,118,000)	(9,856,422,000)
Acquisitions of bank premises, furniture, fixtures and equipment	12	(495,459,678)	(234,800,481)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	12	43,644,910	2,748,000
Acquisitions of software and other intangibles	15	(7,509,881)	(9,591,191)
Proceeds from disposal of investment properties	14	1,494,000	2,001,900
Net Cash Used in Investing Activities		(1,122,830,649)	(5,715,239,772)
CASH FLOW FROM FINANCING ACTIVITY			
Proceeds from bills payable	18	7,100,000,000	-
Proceeds from issuance of shares of stock	20	4,550,000,000	-
Repayments of bills payable	18	(600,000,000)	-
Repayments of lease liabilities	13	(131,908,603)	(113,611,756)
Interest paid on bills payable	18	(28,205,556)	-
Net Cash From (Used in) Financing Activities		10,889,885,841	(113,611,756)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,511,696,840	2,113,896,614
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6		
Cash and other cash items		2,590,833,675	2,472,630,317
Due from Bangko Sentral ng Pilipinas		142,010,944	380,279,925
Due from other banks		3,402,986,140	1,169,023,903
		6,135,830,759	4,021,934,145
CASH AND CASH EQUIVALENTS AT END OF YEAR	6		
Cash and other cash items		2,186,619,439	2,590,833,675
Due from Bangko Sentral ng Pilipinas		690,117,513	142,010,944
Due from other banks		5,770,790,647	3,402,986,140
		P 8,647,527,599	P 6,135,830,759

Supplemental Information on Non-Cash Investing Activity:

In 2022 and 2021, the Bank recognized right-of-use assets amounting to P251.3 million and P265.8 million, respectively, and lease liabilities amounting to P224.0 million and P248.8 million, respectively (see Note 13).

See Notes to Financial Statements.

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BDO NETWORK BANK INC.
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

BDO Network Bank, Inc. (the Bank) was organized as a result of the consolidation of two rural banks, namely, One Network Rural Bank, Inc. (ONRBI) and Rural Bank of New Corella (Davao del Norte), Inc. (RBNCI). The Bank was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. The Bank started its commercial operations on September 1, 2011.

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity.

On July 20, 2015, BDO Unibank, Inc. (BDO or the Parent Bank), with the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), successfully acquired 99.59% of the Bank's outstanding capital stock making the Bank a member then of the BDO Group. As of December 31, 2022 and 2021, BDO is the beneficial owner of 87.37% and 82.76%, respectively, of the Bank's total issued and outstanding capital.

On September 29, 2018, the Parent Bank entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire 15.00% ownership interest in the Bank. On May 16, 2019 and January 8, 2021, the latter acquired 10.00% and 5.00% ownership interest in the Bank, respectively.

On February 4, 2019, the Bank entered into an asset sale and purchase agreement with Rural Bank of Pandi (Bulacan), Inc. (RBPI) wherein the Bank purchased the recorded gross loan receivables, and assume the recorded deposit liabilities of RBPI. The purchase was completed on October 31, 2019.

On July 31, 2019, the SEC approved the Bank's application to change its corporate name from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

On January 27, 2022, the BSP approved the application for the conversion of the Bank from a rural bank to a thrift bank, subject to the approval of the amended Articles of Incorporation (AOI) and By-laws by the SEC. The Bank has not yet obtained the Certificate of Registration from the SEC for the amended AOI and By-laws as of the date the financial statements were authorized for issue.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of the General Banking Law of 2000 or Republic Act (RA) No. 8791.

The registered head office of the Bank is located at BDONB Center, Km. 9, Sasa, Davao City. The Bank has the widest private banking network in Mindanao and the widest rural banking network in the country with its 333 branches and 120 loan processing offices as of December 31, 2022.

The Bank offers a complete array of products and services. It offers Deposit products (e.g., Savings Accounts - Young Pera Savers, ATM and Payroll Accounts, Kabayan Savings, and Optimum Savings; Checking Account; and, Time Deposit Account), has remained tolerant to micro deposits given the affordable opening requirements, and has also grown to include big banking financial product packages. The Bank likewise offers Loan Products for appropriate and timely credit for personal consumption as well as need-based cash flow financing packages that not only nurture small businesses in the countryside but also provide credit lines that cater to client's needs. Other services include convenient, quick and affordable collection and payment services bringing modern, value-added services closer to Bank's clientele, big and small.

1.2 Impact of Russia – Ukraine Conflict on the Bank's Business

On February 24, 2022, Russia started its invasion of Ukraine, which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact prices of items such as petroleum products, cereals, iron, and steel.

In principle, it cannot be ruled out that a prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines. However, as of December 31, 2022, the Bank, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices, disruption in supply chains, and volatility in interest rates and foreign exchange rates. The Philippines remains a domestically-focused, import-dependent consumption economy, and despite the higher inflation resulting from the conflict, Philippine Gross Domestic Product (GDP) numbers remained strong and resilient in 2022. The reopening of the economy, the relaxation of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has led to improved loan growth and net income growth, not just for the Bank, but for the industry in general.

The Bank continues to closely monitor developments in both the global and domestic markets. While the impact of the conflict has not been material so far, the Bank recognizes that a prolonged situation of high inflation and interest rates could eventually affect economic activity, resulting in slower growth and consumption. The Bank believes that its established business franchise and strong financial condition will allow it to weather near-term risks arising from the conflict.

1.3 Continuing Impact of Coronavirus Disease 2019 (COVID-19) on Bank's Operations

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels. As a result, the overall continuing impact of the COVID-19 pandemic to the Bank has considerably diminished and the Bank's operations have gone back to pre-pandemic levels.

With the reduced impact of pandemic-related issues in 2022, the Bank saw more normalized operations and increasingly positive results as the economy continued with its recovery. Overall net impact is an increase in net profit of 195.85% compared to that of 2021.

Management will continue to monitor any potential risks arising from the pandemic, and will institute measures to mitigate these, as needed. Based on recent developments, management is optimistic that the Bank will continue to post positive results consistent with the country's economic recovery, and will maintain sufficient liquidity to meet current obligations as they fall due. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern due to the effects of the pandemic.

1.4 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the Board of Directors (BOD) of the Bank on February 17, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Bank presents statement of comprehensive income separate from the statement of profit or loss.

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

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

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

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

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
PFRS 3 (Amendments)	:	Business Combinations – Reference to the Conceptual Framework
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities
PFRS 16 (Amendments)	:	Leases – Lease Incentives

Discussed below are the relevant information about these pronouncements.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

(iii) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*. The amendments are responses to feedback received from the post-implementation review of PFRS 3. The amendments clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business. To meet the definition of a business, the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs. The amendments removed the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs. The amendments introduced an optional test ('the concentration test') that allows the acquirer to carry out a simple assessment to determine whether the acquired set of activities and assets is not a business. The entity can choose whether to apply the concentration test for each transaction it makes. These amendments have no significant impact to the Bank's financial statements.

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Bank's financial statements:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

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

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following Annual Improvements to PFRS 2018-2020 Cycle are not relevant to the Bank's financial statement:

(i) PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

(ii) PAS 41, Agriculture – *Taxation in Fair Value Measurements*

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

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

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Current versus Non-current Classification

The Bank presents assets and liabilities in the statement of financial position based on liquidity, while current or non-current classification is presented in Note 4.1. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Bank classifies all other liabilities as non-current. Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

2.4 Financial Instruments

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

(a) Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

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

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

(i) Classification, Measurement and Reclassification of Financial Assets

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

Financial Assets at Amortized Cost

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

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

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

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent "solely payments of principal and interests" (SPPI). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement[see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Investment Securities at Amortized Cost, Loans and Other Receivables and Security deposits (presented as part of Prepayments and Other Resources).

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks. Loans and other receivables also include receivables from customers and other receivables.

Interest income is calculated by applying the effective interest rate (EIR) to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the EIR is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of profit or loss as part of Interest Income.

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell; and,

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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

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

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

Interest income is recognized using the EIR method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in interest income. The adjustment is subsequently amortized through interest and similar income in the statement of profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.4(a)(iii)], interest income is calculated by applying the EIR to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted EIR to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(iii) *Impairment of Financial Assets*

At the end of the reporting period, the Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

Measurement of ECL

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

- *Probability of Default (PD)* – It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss Given Default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at Default (EAD)* – It represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

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

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement as determined by the management is disclosed in Note 4.3.5.

(iv) Derecognition of Financial Assets

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

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

(i) Modification of Loans

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

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

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

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

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

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

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(b) Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable, and accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost.

Bills payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders, if any, are recognized as financial liabilities when the dividends are declared by the Bank and subject to the requirements of BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) Offsetting Financial Instruments

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

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

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-10 years

Leasehold improvements are amortized over the term of the lease or useful lives of the improvements of five years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13). The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Investment Properties

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Subsequently, investment properties are stated at cost less accumulated depreciation (except for land) and any impairment in value.

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

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

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

2.7 Prepayments and Other Resources

Prepayments and other resources pertain to other resources controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. 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.

2.8 Intangible Assets

Intangible assets include software and other intangibles which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition (see Note 2.18). Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.13). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.13).

Capitalized costs of software and other intangibles are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.13. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

Goodwill, software and other intangible assets are presented as part of Prepayments and Other Resources account in the statement of financial position.

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

2.9 Provisions and Contingencies

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

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

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Other Income and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank also earns service fees and commissions in various banking services, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Service charges, fees and commissions – Revenue is generally recognized when the service has been provided, based on agreed terms and conditions.

(a) *Service charges on loans* – Service charges are revenues arising primarily from processing of loans that are recognized at a point in time when the services have been provided and are taken up as income based on agreed terms and conditions.

(b) *Service charges on ATM transactions* – are recognized as revenue at a point in time when the ATM transaction has been completed.

(c) *Inter-branch fees* – Revenues arising from processing of deposits and withdrawals from other branches are recognized at a point in time upon crediting of deposits or disbursing of cash for withdrawals.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

(a) *Income from disposal of investment properties* – Income or loss from assets sold is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is reported as part of Other Income in the statement of profit or loss.

(b) *Recovery from accounts written off* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is reported as part of Other Income in the statement of profit or loss.

2.11 Leases – Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

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

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

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 those determined to be fixed in substance), and any payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases 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 the statement of financial position, right-of-use assets and lease liabilities have been presented separately from bank premises, furniture, fixtures and equipment and other liabilities, respectively.

2.12 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.13 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, right-of-use asset, investment properties, software and other intangibles and goodwill (both presented as part of Prepayments and Other Resources) are subject to impairment testing. Individual assets or cash-generating units except goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill with indefinite useful life, on the other hand, is subject to annual test of impairment.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Except for goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined benefit contribution plan, as well as bonus plans which are recognized as those stated below and in the succeeding page.

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used Bloomberg Valuation Service (BVAL) Evaluated Pricing Service to calculate the PHP BVAL Reference Rates. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense in the statement of profit or loss.

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity, such as the Social Security System. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

2.15 Income Taxes

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

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

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

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

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

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

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

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

2.16 Related Party Relationships and Transactions

Related party transactions are transfers 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; (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; and, (d) the Bank's funded post-employment defined benefit plan.

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

2.17 Equity

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

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Other reserves include:

(a) Appropriation for self-insurance;

(b) Appropriation for general loan loss provision (GLLP). This pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent GLLP for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL; and,

(c) Preferred share redemption. This is subsequently reduced by the amount of stock and cash dividends declared which were effected against Other Reserves as approved by the BSP.

Revaluation reserves comprise fair value gains on revaluation of financial assets at FVOCI and remeasurements of post-employment defined benefit obligation.

Surplus represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared, if any.

2.18 Business Acquisitions

Business acquisitions are accounted for using the acquisition method of accounting. Acquisition method requires recognizing and measuring the identifiable resources acquired and the liabilities assumed. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Bank, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the Bank's share of the identifiable net assets acquired, is recognized as goodwill (see Note 2.8). If the acquisition consideration is less than the fair value of the net assets of the acquiree, the difference is recognized directly as a gain in the statement of profit or loss.

2.19 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) Evaluation of Business Model Applied in Managing Financial Instruments

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

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

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) Distinction between Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as an investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in operations.

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

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

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

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

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.9 and disclosures of relevant contingencies are presented in Note 25.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables are shown in Notes 9, 10, and 11, respectively, while the analysis of the allowance for impairment on such financial assets are disclosed in Note 16.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 9.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, and Software and Other Intangible Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, and software and other intangibles (presented as part of Prepayments and Other Resources account in the statements of financial position), based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties, and software and other intangibles are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The Bank's goodwill was regarded as having an indefinite useful life considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful life is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, and software and other intangibles are analyzed in Notes 12, 13, 14, and 15, respectively.

(d) Determination of Assumptions for Management's Estimation of Fair Value of Investment Properties

Investment properties are measured using the cost model. The fair value disclosed in Note 14 to the financial statements as determined by the Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 5.5).

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(e) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Management assessed that the deferred tax assets recognized as of December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(f) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss is required on the bank premises, furniture, fixtures and equipment, investment properties, software and other intangibles, and goodwill accounts in 2022 and 2021.

(g) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment.

Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Valuation of Post-employment Defined Benefit Obligation*

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

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation as well as the significant assumptions used in estimating such obligation in the next reporting period are presented in Note 23.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

With its culture of managing risk prudently within its capacity and capabilities, the Bank will pursue its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The Bank believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Bank is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Bank's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Bank ensures:

- Strong financial position by maintaining capital ratios in excess of regulatory requirements;
- Sound management of liquidity; and,
- Ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Bank ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, and compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Bank's activities and transactions.

Risk management in the Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system.

The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

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

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Bank is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Bank's business. The goal of the risk management process is to ensure rigorous adherence to the Bank's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

There is no significant change on the policies and process for managing the risk and the methods used to measure the risk of the Bank, except for the performance of the comprehensive review of the financial instruments, particularly for loan accounts, to assess vulnerability to the significant increase in credit risk in response to the unprecedented impact of COVID-19 pandemic.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage liquidity gaps, regular liquidity stress testing, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The analysis of the maturity groupings of resources and liabilities as of December 31, 2022 and 2021 in accordance with account classification of the BSP is presented below. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified under more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

	2022				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Three Years**	**More Than Three Years**	**Total**
Resources:					
Cash and other cash items	**P 2,186,619,439**	**P -**	**P -**	**P -**	**P 2,186,619,439**
Due from BSP and other banks*	**6,198,776,451**	**25,635,310**	**7,400,881**	**229,095,518**	**6,460,908,160**
Investment securities	**301,557**	**150,206,272**	**98,724,963**	**8,643,896,995**	**8,893,129,787**
Loans and other receivables – net	**6,043,089,840**	**13,350,285,422**	**26,549,588,748**	**20,566,748,106**	**66,509,712,116**
Other resources – net**	**-**	**-**	**-**	**3,179,428,268**	**3,179,428,268**
Total Resources	**14,428,787,287**	**13,526,127,004**	**26,655,714,592**	**32,619,168,887**	**87,229,797,770**
Liabilities and Equity:					
Deposit liabilities	**21,526,741,109**	**1,281,765,493**	**370,044,042**	**43,932,099,044**	**67,110,649,688**
Bills payable	**2,505,566,667**	**1,015,500,000**	**3,011,979,166**	**-**	**6,533,045,833**
Lease liabilities	**35,151,562**	**105,010,302**	**246,517,283**	**154,942,750**	**541,621,897**
Accrued expenses and other liabilities	**1,534,981,092**	**-**	**-**	**-**	**1,534,981,092**
Total Liabilities	**25,602,440,430**	**2,402,275,795**	**3,628,540,491**	**44,087,041,794**	**75,720,298,510**
Equity	**-**	**-**	**-**	**11,509,499,260**	**11,509,499,260**
Total Liabilities and Equity	**25,602,440,430**	**2,402,275,795**	**3,628,540,491**	**55,596,541,054**	**87,229,797,770**
Periodic Gap	**(11,173,653,143)**	**11,123,851,209**	**23,027,174,101**	**(22,977,372,167)**	**-**
Cumulative Total Gap	**(P 11,173,653,143)**	**(P 49,801,934)**	**P 22,977,372,167**	**P -**	**P -**

**Due from BSP and other banks – amounts presented are based on the percentage reserve requirements against core and volatile deposit liabilities instead of contractual maturities.*
***Other resources – net includes Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Deferred Tax Assets and Prepayments and Other Resources.*

	2021				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 2,590,833,675	P -	P -	P -	P 2,590,833,675
Due from BSP and other banks*	3,511,030,918	21,843,027	1,351,878	10,771,261	3,544,997,084
Investment securities	12,960,411	103,901,450	1,396,625,840	7,174,170,981	8,687,658,682
Loans and other receivables – net	3,891,507,102	11,170,235,004	19,762,676,401	1,935,101,405	36,759,519,912
Other resources – net**	-	-	-	3,155,626,685	3,155,626,685
Total Resources	10,006,332,106	11,295,979,481	21,160,654,119	12,275,670,332	54,738,636,038
Liabilities and Equity:					
Deposit liabilities	15,135,199,869	1,092,151,347	67,593,890	30,744,207,479	47,039,152,585
Lease liabilities	29,193,868	79,196,009	188,284,537	125,507,467	422,181,881
Accrued expenses and other liabilities	937,035,136	121,101,413	-	-	1,058,136,549
Total Liabilities	16,101,428,873	1,292,448,769	255,878,427	30,869,714,946	48,519,471,015
Equity	-	-	-	6,219,165,023	6,219,165,023
Total Liabilities and Equity	16,101,428,873	1,292,448,769	255,878,427	37,088,879,969	54,738,636,038
Periodic Gap	(6,095,096,767)	10,003,530,712	20,904,775,692	(24,813,209,637)	-
Cumulative Total Gap	(P 6,095,096,767)	P 3,908,433,945	P 24,813,209,637	P -	P -

**Due from BSP and other banks – amounts presented are based on the percentage reserve requirements against core and volatile deposit liabilities instead of contractual maturities.*
***Other resources – net includes Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Deferred Tax Assets and Prepayments and Other Resources.*

4.2 Market Risk

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in debt securities. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and the BOD.

4.2.1 Foreign Currency Risk

Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As of December 31, 2022 and 2021 the Bank has no significant foreign currency risk exposure as it has no significant foreign currency-denominated deposits with other banks and deposit liabilities to depositors.

4.2.2 Interest Rate Risk

The Bank prepares gap analysis to measure the sensitivity of its resources and liabilities to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources and liabilities as of December 31, 2022 and 2021 based on the expected interest realization or recognition are shown below and in the succeeding page.

	2022					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-rate Sensitive**	**Total**
Resources:						
Cash and other cash items	**P -**	**P -**	**P -**	**P -**	**P 2,186,619,439**	**P 2,186,619,439**
Due from BSP and other banks	**-**	**-**	**-**	**-**	**6,460,908,160**	**6,460,908,160**
Investment securities	**301,557**	**150,206,272**	**6,354,302,218**	**2,388,319,740**	**-**	**8,893,129,787**
Loans and other receivables - net	**424,925,342**	**3,312,938,989**	**53,074,793,565**	**8,195,235,384**	**1,501,818,836**	**66,509,712,116**
Other resources - net*	**-**	**-**	**-**	**-**	**3,179,428,268**	**3,179,428,268**
Total Resources	**425,226,899**	**3,463,145,261**	**59,429,095,783**	**10,583,555,124**	**13,328,774,703**	**87,229,797,770**
Liabilities and Equity:						
Deposit liabilities	**24,938,978,659**	**2,330,482,715**	**1,613,290,049**	**3,900,000**	**38,223,998,265**	**67,110,649,688**
Bills payable	**2,500,000,000**	**1,000,000,000**	**3,033,045,833**	**-**	**-**	**6,533,045,833**
Lease liabilities	**-**	**-**	**-**	**-**	**541,621,897**	**541,621,897**
Accrued expenses and other liabilities	**-**	**-**	**-**	**-**	**1,530,920,299**	**1,530,920,299**
Income tax payable	**-**	**-**	**-**	**-**	**4,060,793**	**4,060,793**
Total Liabilities	**27,438,978,659**	**3,330,482,715**	**4,646,335,882**	**3,900,000**	**40,300,601,254**	**75,720,298,510**
Equity	**-**	**-**	**-**	**-**	**11,509,499,260**	**11,509,499,260**
Total Liabilities and Equity	**27,438,978,659**	**3,330,482,715**	**4,646,335,882**	**3,900,000**	**51,810,100,514**	**87,229,797,770**
Periodic Gap	**(27,013,751,760)**	**132,662,546**	**54,782,759,901**	**10,579,655,124**	**(38,481,325,811)**	**-**
Cumulative Total Gap	**(P27,013,751,760)**	**(P26,881,089,214)**	**P27,901,670,687**	**P 38,481,325,811**	**P -**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	2021					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 2,590,833,675	P 2,590,833,675
Due from BSP and other banks	2,204,753,950	-	-	-	1,340,243,134	3,544,997,084
Investment securities	12,960,412	103,901,450	1,714,893,888	6,855,902,932	-	8,687,658,682
Loans and other receivables - net	367,891,062	2,282,223,771	32,589,089,310	222,844,130	1,297,471,639	36,759,519,912
Other resources - net*	-	-	-	-	3,155,626,685	3,155,626,685
Total Resources	2,585,605,424	2,386,125,221	34,303,983,198	7,078,747,062	8,384,175,133	54,738,636,038
Liabilities and Equity:						
Deposit liabilities	12,289,571,107	1,560,216,210	865,938,496	34,700,000	32,288,726,772	47,039,152,585
Lease liabilities	-	-	-	-	422,181,881	422,181,881
Accrued expenses and other liabilities	-	-	-	-	1,058,136,549	1,058,136,549
Total Liabilities	12,289,571,107	1,560,216,210	865,938,496	34,700,000	33,769,045,202	48,519,471,015
Equity	-	-	-	-	6,219,165,023	6,219,165,023
Total Liabilities and Equity	12,289,571,107	1,560,216,210	865,938,496	34,700,000	39,988,210,225	54,738,636,038
Periodic Gap	(9,703,965,683)	825,909,011	33,438,044,702	7,044,047,062	(31,604,035,092)	-
Cumulative Total Gap	(P 9,703,965,683)	(P 8,878,056,672)	P24,559,988,030	P 31,604,035,092	P -	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

The Bank's market risk management uses Earnings-at-risk limits. The Bank computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

	2022			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**P 250,483,991**	**(P 250,483,991)**	**P 125,241,996**	**(P125,241,996)**
As a percentage of the Bank's net interest income for 2022	**4.75%**	**(4.75%)**	**2.38%**	**(2.38%)**
Earnings-at-risk	**P 646,435,003**			

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	P 111,173,862	(P 111,173,862)	P 55,586,931	(P 55,586,931)
As a percentage of the Bank's net interest income for 2021	2.73%	(2.73%)	1.37%	(1.37%)
Earnings-at-risk	P 347,055,493			

4.2.3 Other Price Risk

The Bank's market price risk arises from its investments carried at fair value. The Bank manages exposure to price risk of financial assets at FVOCI by monitoring the changes in the market price of these investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

The impact of 100 basis points decrease in prices on debt securities classified as financial assets at FVOCI on the Bank's other comprehensive income as of December 31, 2022 and 2021 is P266.2 million and P282.0 million, respectively.

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, and other activities undertaken by the Bank. RMG undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business.

RMG also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing, and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the Credit Committee.

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

4.3.1 Credit Risk Assessment

Loan classification and credit risk rating are an integral part of the Bank's management of credit risk. On an annual basis, loans are reviewed, classified as necessary, and rated based on internal and external factors that affect its performance. On a monthly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provision.

The Bank's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B-
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) Current/Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) Adversely Classified

(i) Loans Especially Mentioned (LEM)

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

(ii) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of the Bank's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and health risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Bank using internal credit ratings.

4.3.2 Credit Quality Analysis

The table presented in the succeeding page sets out information about the credit quality of cash and cash equivalents, loans and other receivables, financial assets at FVOCI and investment securities measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2022 and 2021, there are no purchased or originated credit impaired financial assets in the Bank's financial statements.

The following tables show the exposure to credit risk as of December 31, 2022 and 2021 for each internal risk grade and the related allowance for impairment.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers - corporate				
Grades AAA to B : Current	**P 710,998,973**	**P -**	**P -**	**P 710,998,973**
Grade B- : Watchlisted	**23,410,574**	**-**	**-**	**23,410,574**
Grade C : LEM	**54,569,580**	**-**	**-**	**54,569,580**
Grade F : Loss	**-**	**-**	**1,977,047**	**1,977,047**
	788,979,127	**-**	**1,977,047**	**790,956,174**
Allowance for impairment	**(14,513,819)**	**-**	**(1,887,169)**	**(16,400,988)**
Carrying amount	**P 774,465,308**	**P -**	**P 89,879**	**P 774,555,186**
Receivables from customers - consumers				
Grades AAA to B : Current	**P 65,409,689,648**	**P -**	**P -**	**P 65,409,689,648**
Grade B : Watchlisted	**-**	**-**	**-**	**-**
Grade C : LEM	**-**	**-**	**-**	**-**
Grade D : Substandard	**-**	**290,028,272**	**-**	**290,028,272**
Grade E : Doubtful	**-**	**-**	**161,899,397**	**161,899,397**
Grade F : Loss	**-**	**-**	**1,637,531,420**	**1,637,531,420**
	65,409,689,648	**290,028,272**	**1,799,430,817**	**67,499,148,737**
Allowance for impairment	**(507,547,059)**	**(113,747,715)**	**(1,369,193,029)**	**(1,990,487,803)**
Carrying amount	**P 64,902,142,589**	**P 176,280,557**	**P 430,237,788**	**P 65,508,660,934**
Other receivables				
Grades AAA to B : Current	**P 196,459,026**	**P -**	**P -**	**P 196,459,026**
Grade C: LEM	-	**3,012,377**	**-**	**3,012,377**
Grade D : Substandard	-	**-**	**3,137,730**	**3,137,730**
Grade E : Doubtful	**-**	**-**	**5,490,954**	**5,490,954**
Grade F : Loss	**-**	**-**	**58,796,412**	**58,796,412**
	196,459,026	**3,012,377**	**67,425,096**	**266,896,499**
Allowance for impairment	**(165,420)**	**-**	**(40,235,083)**	**(40,400,503)**
Carrying amount	**P 196,293,606**	**P 3,012,377**	**P 27,190,013**	**P 226,495,996**
Financial assets at FVOCI				
Grades AAA to B : Current	**P 4,758,651,139**	**P -**	**P -**	**P 4,758,651,139**
Allowance for impairment	**(99,208)**	**-**	**-**	**(99,208)**
Carrying amount	**P 4,758,551,931**	**P -**	**P -**	**P 4,758,551,931**
Investment securities at amortized cost				
Grades AAA to B : Current	**P 4,134,577,856**	**P -**	**P -**	**P 4,134,577,856**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Grades AAA to B : Current	P 132,396,095	P -	P -	P 132,396,095
Grade B- : Watchlisted	105,963,101	-	-	105,963,101
Grade C : LEM	5,215,504	-	-	5,215,504
Grade F : Loss	-	-	4,023,753	4,023,753
	243,574,700	-	4,023,753	247,598,453
Allowance for impairment	(15,116,642)	-	(4,023,753)	(19,140,395)
Carrying amount	P 228,458,058	P -	P -	P 228,458,058
Receivables from customers - consumers				
Grades AAA to B : Current	P 31,559,864,391	P -	P -	P 31,559,864,391
Grade B : Watchlisted	9,074,641	-	-	9,074,641
Grade C : LEM	-	1,189,069	8,147,912	9,336,981
Grade D : Substandard	-	261,999,020	6,751,842	268,750,862
Grade E : Doubtful	-	-	4,540,643,850	4,540,643,850
Grade F : Loss	-	-	1,651,173,636	1,651,173,636
	31,568,939,032	263,188,089	6,206,717,240	38,038,844,361
Allowance for impairment	(296,081,585)	(87,353,791)	(1,332,225,833)	(1,715,661,209)
Carrying amount	P 31,272,857,447	P 175,834,298	P 4,874,491,407	P 36,323,183,152
Other receivables				
Grades AAA to B : Current	P 144,327,842	P -	P -	P 144,327,842
Grade C: LEM	-	41,095,979	-	41,095,979
Grade D : Substandard	-	-	6,199,438	6,199,438
Grade E : Doubtful	-	-	3,206,850	3,206,850
Grade F : Loss	-	-	53,455,232	53,455,232
	144,327,842	41,095,979	62,861,520	248,285,341
Allowance for impairment	(102)	(310,784)	(40,095,753)	(40,406,639)
Carrying amount	P 144,327,740	P 40,785,195	P 22,765,767	P 207,878,702
Financial assets at FVOCI				
Grades AAA to B : Current	P 6,334,398,148	P -	P -	P 6,334,398,148
Investment securities at amortized cost				
Grades AAA to B : Current	P 2,353,260,534	P -	P -	P 2,353,260,534

As of December 31, 2022 and 2021, the Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P8,647.5 million and P6,135.8 million, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on Standard & Poor's ratings.

4.3.3 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by sector only since for geographic location all are concentrated in the Philippines. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

	2022			2021		
	Cash and Cash Equivalents*	**Receivables from Customers**	**Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers	Investment Securities
Concentration by sector:						
Financial and insurance activities	**P8,647,527,599**	**P 504,397,875**	**P 8,794,404,823**	P 6,135,830,759	P 6,458,387	P 8,582,941,032
Consumption		**61,541,452,217**	**-**	-	32,786,217,336	-
Wholesale and retail	**-**					
trade	**-**	**4,005,283,520**	**-**	-	3,432,376,379	-
Agriculture, forestry and fishing	**-**	**731,019,303**	**-**	-	642,497,925	-
Manufacturing	**-**	**434,013,337**	**-**	-	411,422,498	-
Accommodation and food service activities	**-**	**194,582,570**	**-**	-	178,492,673	-
Human health and social work activities	**-**	**117,208,550**	**-**	-	134,098,460	-
Construction	**-**	**91,977,868**	**-**	-	105,747,973	-
Transportation and storage	**-**	**40,319,791**	**-**	-	40,065,286	-
Real estate activities	**-**	**22,536,471**	**98,824,172**	-	34,617,036	104,717,650
Education	**-**	**35,329,132**	**-**	-	34,185,848	-
Administrative and support services	**-**	**39,913,206**	**-**	-	30,409,324	-
Mining and quarrying	**-**	**21,206,775**	**-**	-	22,115,621	-
Professional, scientific and technical services	**-**	**19,529,870**	**-**	-	15,677,799	-
Information and communication	**-**	**11,688,194**	**-**	-	11,707,445	-
Electricity, gas, steam and and air-conditioning supply	**-**	**2,309,926**	**-**	-	3,765,831	-
Water supply, sewerage waste management and remediation activities	**-**	**4,660,664**	**-**	-	2,935,815	-
Arts, entertainment and recreation	**-**	**2,113,455**	**-**	-	1,125,630	-
Other service activities	**-**	**470,562,187**	**-**	-	391,629,406	-
	P 8,647,527,599	**P68,290,104,911**	**P 8,893,228,995**	P 6,135,830,759	P38,285,546,672	P 8,687,658,682

* *Cash and cash equivalents include cash and other cash items, due from BSP and other banks*

4.3.4 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. The Bank hold collateral against credit exposures in the form of property and hold-out deposits.

There is no significant change on the quality of the collateral and other security enhancements held against the credit exposures except for the fair value of the collaterals driven by the change in market conditions.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	2022	2021
Receivable from customers – corporate		
Property	**P 1,307,533,803**	P 1,465,239,083
Hold-out deposits	**111,200,000**	40,121,881
	1,418,733,803	1,505,360,964
Receivable from customers – consumer		
Property	**50,640,992**	51,071,737
Hold-out deposits	**29,397,000**	23,798,874
	80,037,992	74,870,611
	P 1,498,771,795	P 1,580,231,575

As of December 31, 2022 and 2021, no collateral is held for due from other banks and investment securities.

In 2022 and 2021, no properties were recognized arising from foreclosures in settlement of loan accounts. The carrying amount of the Bank's foreclosed assets, which pertain to land and buildings and related improvements, amounted to P2.3 million and P2.8 million as of December 31, 2022 and 2021, respectively. The foreclosed assets are all presented as Investment Properties in the statements of financial position (see Note 14).

The Bank's manner of disposing the collateral for impaired loans and other receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

The general creditworthiness of a corporate and individual customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the Bank generally requests that corporate and individual borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Bank is focused on corporate and individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Bank obtains appraisals of collateral to provide input into determining the management credit risk actions.

(a) Receivable from Customers - Corporate

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P0.1 million and nil as of December 31, 2022 and 2021, respectively.

(b) Receivable from Customers - Consumer

The net carrying amount of credit-impaired receivables to individual customers amounted to P606.5 million and P5,050.3 million as of December 31, 2022 and 2021, respectively. The fair value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P1.1 million and P0.7 million as of December 31, 2022 and 2021, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

The net carrying amount of credit-impaired receivables to corporate customers amounted to P30.2 million and P63.6 million as of December 31, 2022 and 2021, respectively.

(d) Debt Investment Securities

The maximum exposure to credit risk of the financial assets at FVOCI and investment securities at amortized cost are their carrying amounts of P4,758.6 million and P4,134.6 million, respectively, as of December 31, 2022, and P6,334.4 million and P2,353.2 million, respectively, as of December 31, 2021.

There were no changes in the Bank's collateral policies in 2022 and 2021.

4.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, LGD and EAD.

(a) Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with

- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales, intermittent delays in payment or restructuring.

(i) Credit risk grading

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

The Bank assigns corporate and consumer loans based on classification into stages of impairment as follows:

• Grades AAA to C	:	Stage 1
• Grade D	:	Stage 2
• Grades E to F	:	Stage 3

(ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) Determining whether credit risk has significantly increased

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Bank.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) Definition of Default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);

- the borrower is more than 90 days past due on any material credit obligation to the Bank; or,

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial asset is in default as well as their significance may vary over time to reflect changes in circumstances.

(c) Forward-looking Information (FLI)

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

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

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(d) Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Bank's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the EIR as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described in the previous page, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term of maturity;
- industry; and,
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) issued to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) Write-offs

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

(g) Credit Risk Exposure

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, as shown below.

	2022			
	Gross Maximum Exposure	**Fair Value of Collaterals**	**Net Exposure**	**Financial Effect of Collaterals**
Receivables from customers:				
Corporate	**P 790,956,174**	**P 1,418,733,803**	**P -**	**P 790,956,174**
Consumer	**67,499,148,737**	**80,037,992**	**67,419,110,745**	**80,037,992**
	P 68,290,104,911	**P 1,498,771,795**	**P 67,419,110,745**	**P 870,994,166**

	2021			
	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
Receivables from customers:				
Corporate	P 247,598,453	P 1,505,360,964	P -	P 247,598,453
Consumer	38,038,844,361	74,870,611	37,963,973,750	74,870,611
	P 38,286,442,814	P 1,580,231,575	P 37,963,973,750	P 322,469,064

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and investment securities at FVOCI as of December 31:

	Notes	**2022**	2021
Cash and cash equivalents	6	**P 8,647,527,599**	P 6,135,830,759
Investment securities:			
at FVOCI	9	**4,758,551,931**	6,334,398,148
at amortized cost	10	**4,134,577,856**	2,353,260,534
		P 17,540,657,386	P 14,823,489,441

Cash and cash equivalents includes amounts due from BSP and from other banks. Investment securities include government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

(h) Loss Allowance

In 2022 and 2021, the Bank performed recalibration of its existing ECL model to incorporate on the most-recent default and recovery experience of the Bank and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the probability of default could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure models are robust, predictive and reliable.

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers - corporate				
Balance at January 1	**P 15,116,642**	**P -**	**P 4,023,753**	**P 19,140,395**
Transfers to:				
Stage 1	**15,095,583**	**(15,095,583)**	**-**	**-**
Stage 2	**-**	**-**	**-**	**-**
Stage 3	**-**	**(1,887,171)**	**1,887,171**	**-**
Net remeasurement of loss allowance	**(16,270,646)**	**16,982,754**	**(1,887,172)**	**(1,175,064)**
New financial assets originated	**650,000**	**-**	**-**	**650,000**
Write-offs	**-**	**-**	**(2,136,583)**	**(2,136,583)**
Derecognition of financial assets	**(77,760)**	**-**	**-**	**(77,760)**
Balance at December 31	**P 14,513,819**	**P -**	**P 1,887,169**	**P 16,400,988**
Receivables from customers - consumer				
Balance at January 1	**P 296,081,585**	**P 87,353,791**	**P 1,332,225,833**	**P 1,715,661,209**
Transfers to:				
Stage 1	**150,487,787**	**(42,262,457)**	**(108,225,330)**	**-**
Stage 2	**(2,472,931)**	**2,830,700**	**(357,769)**	**-**
Stage 3	**(66,248,642)**	**(845,751,070)**	**911,999,712**	**-**
Net remeasurement of loss allowance	**(185,980,340)**	**875,861,314**	**(293,265,673)**	**396,615,301**
New financial assets originated	**389,356,306**	**64,733,307**	**109,137,263**	**563,226,876**
Derecognition of financial assets	**(73,676,706)**	**(29,017,870)**	**(122,888,154)**	**(225,582,730)**
Write-offs	**-**	**-**	**(459,432,853)**	**(459,432,853)**
Balance at December 31	**P 507,547,059**	**P 113,747,715**	**P 1,369,193,029**	**P 1,990,487,803**
Other receivables				
Balance at January 1	**P 102**	**P 310,784**	**P 40,095,753**	**P 40,406,639**
Transfers to:				
Stage 1	**103**	**(103)**	**-**	**-**
Stage 2	**(288)**	**176,326**	**(176,038)**	**-**
Stage 3	**(6,948,730)**	**(17,629,576)**	**24,578,306**	**-**
Net remeasurement of loss allowance	**6,948,813**	**17,142,569**	**(8,197,140)**	**15,894,242**
New financial assets originated	**165,420**	**-**	**-**	**165,420**
Derecognition of financial assets	**-**	**-**	**(16,014,169)**	**(16,014,169)**
Write-offs	**-**	**-**	**(51,629)**	**(51,629)**
Balance at December 31	**P 165,420**	**P -**	**P 40,235,083**	**P 40,400,503**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Balance at January 1	P 38,673,256	P -	P 2,523,753	P 41,197,009
Transfers to:				
Stage 1	16,125,214	(16,125,214)	-	-
Stage 2	-	-	-	-
Stage 3	-	(2,523,753)	2,523,753	-
Net remeasurement of loss allowance	(37,693,247)	18,648,967	(1,023,753)	(20,068,033)
Derecognition of financial assets	(1,988,581)	-	-	(1,988,581)
Balance at December 31	P 15,116,642	P -	P 4,023,753	P 19,140,395
Receivables from customers - consumer				
Balance at January 1	P 170,191,535	P 294,697,185	P 1,603,482,539	P 2,068,371,259
Transfers to:				
Stage 1	414,499,996	(210,146,540)	(204,353,456)	-
Stage 2	(3,599,577)	8,139,273	(4,539,696)	-
Stage 3	(22,390,088)	(29,722,148)	52,112,236	-
Net remeasurement of loss allowance	(450,921,789)	3,750,382	701,892,212	254,720,805
New financial assets originated	227,909,269	50,867,219	176,737,578	455,514,066
Derecognition of financial assets	(39,607,761)	(30,231,580)	(384,592,481)	(454,431,822)
Write-offs	-	-	(608,513,099)	(608,513,099)
Balance at December 31	P 296,081,585	P 87,353,791	P 1,332,225,833	P 1,715,661,209

	2021			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 161,634	P 1,566,942	P 37,697,942	P 39,426,518
Transfers to:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	(61,183)	61,183	-
Net remeasurement of loss allowance	(161,634)	(4,851,135)	6,033,905	1,021,136
New financial assets originated	102	3,734,961	5,951,687	9,686,750
Derecognition of financial assets	-	(78,801)	(7,302,484)	(7,381,285)
Write-offs	-	-	(2,346,480)	(2,346,480)
Balance at December 31	P 102	P 310,784	P 40,095,753	P 40,406,639

The following table sets out a reconciliation of changes in the total loss allowance.

	2022	2021
Balance at January 1	**P 1,775,208,243**	P 2,148,994,786
New financial assets originated	**564,042,296**	465,200,816
Write-off	**(461,621,065)**	(610,859,579)
Net remeasurement of loss allowance	**411,334,479**	235,673,908
Derecognition of financial assets	**(241,674,659)**	(463,801,688)
Balance at December 31	**P 2,047,289,294**	P 1,775,208,243

Write-off of allowance for impairment on loans and receivables was approved by the Bank's BOD on various dates in 2022 and 2021 (see Note 16).

(i) Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below and in the succeeding page provide information how the significant changes in the gross carrying amount of financial instruments in 2022 and 2021 contributed to the changes in the allowance for ECL.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers - corporate				
Balance at January 1	**P 243,574,700**	**P -**	**P 4,023,753**	**P 247,598,453**
Transfers to:				
Stage 1	**211,353,923**	**(211,353,923)**	**-**	**-**
Stage 2	**-**	**-**	**-**	**-**
Stage 3	**-**	**(1,887,171)**	**1,887,171**	**-**
Net remeasurement	**(133,728,720)**	**213,241,094**	**(1,797,294)**	**77,715,080**
New financial assets originated	**500,000,000**	**-**	**-**	**500,000,000**
Derecognition of financial assets	**(32,220,776)**	**-**	**-**	**(32,220,776)**
Write-offs	**-**	**-**	**(2,136,583)**	**(2,136,583)**
Balance at December 31	**P 788,979,127**	**P -**	**P 1,977,047**	**P 790,956,174**
Receivables from customers - consumer				
Balance at January 1	**P 31,568,939,032**	**P 263,188,089**	**P 6,206,717,240**	**P 38,038,844,361**
Transfers to:				
Stage 1	**26,869,596,550**	**(26,143,587,720)**	**(726,008,830)**	**-**
Stage 2	**(8,867,260)**	**12,271,750**	**(3,404,490)**	**-**
Stage 3	**(956,273,212)**	**(268,698,114)**	**1,224,971,326**	**-**
Net remeasurement	**(46,097,097,002)**	**26,298,170,570**	**(419,648,824)**	**(20,218,575,256)**
New financial assets originated	**57,804,465,521**	**207,642,153**	**259,418,668**	**58,271,526,342**
Derecognition of financial assets	**(3,771,073,981)**	**(78,958,456)**	**(4,283,181,420)**	**(8,133,213,857)**
Write-offs	**-**	**-**	**(459,432,853)**	**(459,432,853)**
Balance at December 31	**P 65,409,689,648**	**P 290,028,272**	**P 1,799,430,817**	**P 67,499,148,737**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other receivables				
Balance at January 1	**P 144,327,842**	**P 41,095,979**	**P 62,861,520**	**P 248,285,341**
Transfers to:				
Stage 1	**12,874,658**	**(32,002)**	**(12,842,656)**	**-**
Stage 2	**(13,000)**	**28,221,321**	**(28,208,321)**	**-**
Stage 3	**(49,058,504)**	**(12,874,658)**	**61,933,162**	**-**
Net remeasurement	**88,429,198**	**(56,410,640)**	**(23,956,381)**	**8,062,177**
New financial assets originated	**151,305**	**3,012,377**	**8,141,300**	**11,304,982**
Derecogniton of financial assets	**(252,473)**	**-**	**(451,899)**	**(704,372)**
Write-offs	**-**	**-**	**(51,629)**	**(51,629)**
Balance at December 31	**P 196,459,026**	**P 3,012,377**	**P 67,425,096**	**P 266,896,499**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Balance at January 1	P 355,872,230	P -	P 2,523,753	P 358,395,983
Transfers to:				
Stage 1	222,244,333	(222,244,333)	-	-
Stage 2	-	-		-
Stage 3	-	(2,523,753)	2,523,753	-
Net remeasurement	(220,931,706)	224,768,086	(1,023,753)	2,812,627
New financial assets originated	20,017,740	-	-	20,017,740
Derecognition of financial assets	(133,627,897)	-	-	(133,627,897)
Balance at December 31	P 243,574,700	P -	P 4,023,753	P 247,598,453
Receivables from customers - consumer				
Balance at January 1	P 26,524,509,516	P 2,342,823,712	P 2,881,687,283	P 31,749,020,511
Transfers to:				
Stage 1	2,734,347,021	(1,739,164,020)	(995,183,001)	-
Stage 2	(189,086,842)	206,174,754	(17,087,912)	-
Stage 3	(1,166,935,681)	(209,073,082)	1,376,008,763	-
Net remeasurement	(16,833,786,956)	(122,425,121)	660,508,356	(16,295,703,721)
New financial assets originated	24,307,103,216	155,128,065	3,549,720,368	28,011,951,649
Derecognition of financial assets	(3,807,211,242)	(370,276,219)	(640,423,518)	(4,817,910,979)
Write-offs	-	-	(608,513,099)	(608,513,099)
Balance at December 31	P 31,568,939,032	P 263,188,089	P 6,206,717,240	P 38,038,844,361
Other receivables				
Balance at January 1	P 305,702,377	P 6,267,770	P 50,645,293	P 362,615,440
Transfers to:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	(5,367,897)	(640,675)	6,008,572	-
Net remeasurement	(5,756,863)	(4,835,935)	35,341,454	24,748,656
New financial assets originated	141,053,670	41,095,979	9,406,577	191,556,226
Derecogniton of financial assets	(291,303,445)	(791,160)	(36,193,896)	(328,288,501)
Write-offs	-	-	(2,346,480)	(2,346,480)
Balance at December 31	P 144,327,842	P 41,095,979	P 62,861,520	P 248,285,341

In response to the unprecedented impact of COVID-19 pandemic, the Bank granted to its customers the mandatory reliefs provided by the government through *Bayanihan 1* and *Bayanihan 2*. In addition, it entered into voluntary renegotiations of terms of loans of some other customers with a view of maximizing recovery of the contractual amount of obligation. These relief measures were granted to eligible borrowers to allow them to get back into the habit of paying loans which includes payment relief including extension of contractual terms, principal and interest relief, as well as extension of balloon payment terms.

As of December 31, 2022 and 2021, the total outstanding balance of loans modified under *Bayanihan 1* and *Bayanihan 2* amounted to P203.0 million and P347.5 million, respectively.

Financial reliefs provided by the Bank and mandated by the government were assessed to be non-substantial modification and has not resulted to material modification loss as the present value of the original cash flows and the present value of the revised cash flows using the original effective interest rate were substantially the same.

(j) Sensitivity Analysis on ECL Measurement

Set out below are the changes to the Bank's 12-month ECL as of December 31, 2022 and 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions.

	Change in MEVs		Impact on ECL	
	Increase	Decrease	Increase in MEV	Decrease in MEV
2022:				
Corporate Loans				
GDP growth rate	**+1.00%**	**-1.00%**	**-2.88%**	**2.88%**
Oil Index	**+1.00%**	**-1.00%**	**5.93%**	**-5.93%**
Consumer of Personal loans				
GDP growth rate	**+1.00%**	**-1.00%**	**-0.42%**	**0.42%**
Unemployment rate	**+1.00%**	**-1.00%**	**0.47%**	**-0.47%**
2021:				
Corporate Loans				
GDP growth rate	+1.00 %	-1.00%	-6.80%	6.80%
Oil Index	+1.00 %	-1.00%	2.10%	-2.10%
Consumer of Personal loans				
GDP growth rate	+1.00 %	-1.00%	-0.40%	0.40%
Unemployment rate	+1.00 %	-1.00%	0.60%	-0.60%

4.4 Operational Risk

Operational risk is the risk of loss due to the Bank's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

The Bank manages operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. Under the Bank's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in the Bank.

The RMG provides the common risk language and management tools as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Bank continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Bank to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

The Bank also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management Solution (ORMS) was implemented to automate the reporting of the Bank's RCSAs and KRIs. The bank-wide information asset inventory is regularly reviewed to address operational risks arising from information security concerns. The inventory identified critical applications and sensitive data based on the Bank's classification standards, information risks, as well as, protection measures in place to mitigate these risks. Under the purview of information security is data privacy. The Bank's data privacy framework is in accordance with the Republic Act No. 10173, *Data Privacy Act of 2012*.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

The Bank continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

4.5 Legal and Regulatory Risks

Legal risk pertains to the Bank's risk to earnings or capital that may arise as a result of unenforceable contracts, lawsuits or adverse judgments. The Bank may become involved in litigation in enforcing its collection rights under loan agreements in case of borrower's default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of adverse court decisions and engages qualified and accredited legal counsels. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The monitoring of the Bank's compliance with these regulations as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.

5. CATEGORIES, FAIR VALUE MEASUREMENT AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2022		2021	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
At amortized cost:					
Cash and other cash items	6	**P 2,186,619,439**	**P 2,186,619,439**	P 2,590,833,675	P 2,590,833,675
Due from BSP	6, 7	**690,117,513**	**690,117,513**	142,010,944	142,010,944
Due from other banks	6, 8	**5,770,790,647**	**5,770,790,647**	3,402,986,140	3,402,986,140
Loans and other receivables – net	11	**66,509,712,116**	**67,014,172,392**	36,759,519,912	37,070,718,242
Security deposits	15	**38,514,687**	**38,514,687**	29,566,418	29,566,418
Investment securities at amortized cost	10	**4,134,577,856**	**3,891,977,397**	2,353,260,534	2,380,629,416
		79,330,332,258	**79,592,192,075**	45,278,177,623	45,616,744,835
Financial assets at FVOCI	9	**4,758,551,931**	**4,758,551,931**	6,334,398,148	6,334,398,148
		P 84,088,884,189	**P 84,350,744,006**	P 51,612,575,771	P 51,951,142,983
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	17	**P 67,110,649,688**	**P 68,749,832,119**	P 47,039,152,585	P 47,013,879,850
Lease liabilities	13	**541,621,897**	**568,961,168**	422,181,881	439,206,673
Bills payable	18	**6,533,045,833**	**6,495,788,391**	-	-
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	**1,294,979,199**	**1,294,979,199**	794,563,454	794,563,454
		P 75,480,296,617	**P 77,109,560,877**	P 48,255,897,920	P 48,247,649,977

See Note 2.4 for a description of the accounting policies for each category of financial instrument. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

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

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

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

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.

5.3 Financial Instruments Measured at Fair Value

The tables below show the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position as of December 31.

		2022			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Asset					
Financial assets at FVOCI:					
Government debt securities		P 4,659,826,968	P -	P -	P 4,659,826,968
Corporate debt securities		98,724,963	-	-	98,724,963
	9	**P 4,758,551,931**	**P -**	**P -**	**P 4,758,551,931**

		2021			
	Note	Level 1	Level 2	Level 3	Total
Financial Asset					
Financial assets at FVOCI:					
Government debt securities		P 6,229,680,498	P -	P -	P 6,229,680,498
Corporate debt securities		104,717,650	-	-	104,717,650
	9	P 6,334,398,148	P -	P -	P 6,334,398,148

The fair value of the Bank's debt securities is categorized within Level 1.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg, which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

The Bank has no financial liabilities measured at fair value as of December 31, 2022 and 2021.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

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

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

	Notes	2022 Level 1	Level 2	Level 3	Total
Financial Assets					
At amortized cost:					
Cash and cash equivalents	6	P 8,647,527,599	P -	P -	P 8,647,527,599
Loans and other receivables – net	11	-	-	67,014,172,392	67,014,172,392
Security deposits	15	-	-	38,514,687	38,514,687
Investment securities at amortized cost	10	3,891,977,397	-	-	3,891,977,397
		P 12,539,504,996	**P -**	**P 67,052,687,079**	**P 79,592,192,075**
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	17	P -	P -	P 68,749,832,119	P 68,749,832,119
Lease liabilities	13	-	-	568,961,168	568,961,168
Bills payable	18	-	6,495,788,391	-	6,495,788,391
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	-	-	1,294,979,199	1,294,979,199
		P -	**P 6,533,045,833**	**P 70,613,772,486**	**P 77,109,560,877**

	Notes	2021 Level 1	Level 2	Level 3	Total
Financial Assets					
At amortized cost:					
Cash and cash equivalents	6	P 6,135,830,759	P -	P -	P 6,135,830,759
Loans and other receivables – net	11	-	-	37,070,718,242	37,070,718,242
Security deposits	15	-	-	29,566,418	29,566,418
Investment securities at amortized cost	10	2,380,629,416	-	-	2,380,629,416
		P 8,516,460,175	P -	P 37,100,284,660	P 45,616,744,835
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	17	P -	P -	P 47,013,879,850	P 47,013,879,850
Lease liabilities	13	-	-	439,206,673	439,206,673
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	-	-	794,563,454	794,563,454
		P -	P -	P 48,247,649,977	P 48,247,649,977

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities presented in the statements of financial position at their amortized cost:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost are determined by direct reference to published price quoted in an active market for traded debt and equity securities.

The Bank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) *Deposit Liabilities*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(e) *Security Deposits and Accrued Expenses and Other Liabilities*

Due to their short duration, the carrying amounts of security deposits and accrued expenses and other liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

5.5 Fair Value Measurement for Non-financial Assets

There were no non-financial assets measured at fair value as of December 31, 2022 and 2021.

The fair value of investment properties amounted to P236.0 million and P142.9 million as of December 31, 2022 and 2021, respectively. The fair values were determined through appraisals, which were conducted by an in-house appraiser of the Bank, except for the appraisals of investment properties with carrying amount exceeding P5.0 million, which was conducted by an independent appraiser acceptable to the BSP.

The fair value disclosed for the Bank's investment properties, which consist of parcels of land, is based on Level 3. The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 3.

5.6 Offsetting of Financial Assets and Financial Liabilities

The following financial assets with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position		Net amount presented in the statements of financial position	Related amounts not set-off in the statements of financial position		
	Financial assets	Financial liabilities set-off		Financial instruments	Deposits hold-out	Net amount
December 31, 2022 –						
Loans and other receivables – net	P 66,509,712,116	P -	P 66,509,712,116	P -	(P 135,614,556)	P 66,374,097,560
Investment securities at FVOCI	4,758,551,931	-	4,758,551,931	(2,910,006,958)	-	1,848,544,973
Investment securities at amortized cost	4,134,577,856	-	4,134,577,856	(3,366,444,716)	-	768,133,140
	P 75,402,841,903	**P -**	**P 75,402,841,903**	**(P 6,276,451,674)**	**(P 135,614,556)**	**P 68,990,775,673**
December 31, 2021 –						
Loans and other receivables – net	P 36,759,519,912	P -	P 36,759,519,912	P -	(P 38,777,040)	P 36,720,742,872

The following financial liabilities with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position		Net amount presented in the statements of financial position	Related amounts not set-off in the statements of financial position		
	Financial liabilities	Financial assets set-off		Financial instruments	Deposits hold-out	Net amount
December 31, 2022 –						
Deposit liabilities	P 67,110,649,688	P -	P 67,110,649,688	P -	(P 135,614,556)	P 66,975,035,132
Bills payable	6,533,045,833	-	6,533,045,833	(6,276,451,674)	-	256,594,159
	P 73,643,695,521	**P -**	**P 73,643,695,521**	**(P 6,276,451,674)**	**(P 135,614,556)**	**P 67,231,629,291**
December 31, 2021 –						
Deposit liabilities	P 47,039,152,585	P -	P 47,039,152,585	P -	(P 38,777,040)	P 47,000,375,545

For financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to: (a) deposits hold-out which serves as the Bank's collateral enhancement for certain loans and other receivables; and, (b) collateralized bills payable under sale and repurchase agreements. The deposit hold-out that can be set-off are only disclosed to the extent of the outstanding balance of the collateralized loans since it is less than the related deposits held by the Bank.

6. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents consist of the following:

	Notes	**2022**	2021
Cash and other cash items		**P 2,186,619,439**	P 2,590,833,675
Due from BSP	7	**690,117,513**	142,010,944
Due from other banks	8	**5,770,790,647**	3,402,986,140
		P 8,647,527,599	P 6,135,830,759

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements (see Note 6). The Bank has satisfactorily complied with the reserve requirements of the BSP. Deposits with BSP do not earn interest.

8. DUE FROM OTHER BANKS

This account is composed of the following as of December 31:

	Note	**2022**	2021
Time		**P 3,227,897,042**	P 2,065,092,282
Demand and savings		**2,542,893,605**	1,337,893,858
	6	**P 5,770,790,647**	P 3,402,986,140

All of the Bank's time deposits, which can be pre-terminated anytime, will mature within three months. Interest income on deposits with other banks amounted to P66.4 million and P16.2 million in 2022 and 2021, respectively, which is presented as Interest Income on Deposits with Other Banks in the statements of profit or loss.

The Bank's deposits in other banks earn annual interest as follows:

	2022	2021
Savings	**0.05% - 0.25%**	0.05% - 0.38%
Time	**0.21% - 5.50%**	0.21 - 1.50%

9. INVESTMENT SECURITIES AT FVOCI

This account consists of peso-denominated bonds issued by the Philippine government and certain private corporations with annual nominal interest rates ranging from 2.38% to 8.63% and will mature in various dates until 2032.

The details of the carrying amount of these financial assets are as follows:

	2022	2021
Government debt securities	**P 4,659,826,968**	P 6,229,680,498
Corporate debt securities	**98,724,963**	104,717,650
	P 4,758,551,931	P 6,334,398,148

The reconciliation of the carrying amounts of financial assets at FVOCI as of December 31 are presented below.

	Note	**2022**	2021
Balance at beginning of year		**P 6,334,398,148**	P 3,060,606,359
Additions		**1,568,118,000**	9,856,422,000
Cost of sold and matured financial assets at FVOCI		**(2,688,118,000)**	(6,392,174,000)
Unrealized fair value losses		**(424,785,517)**	(188,223,446)
Net decrease in unamortized premium/discount during the year		**(20,796,605)**	(28,682,036)
Additional accrued interest receivable		**10,164,887**	26,449,271
Impairment loss	16	**(99,208)**	-
Balance at end of year		**P 4,758,551,931**	P 6,334,398,148

The breakdown of these financial assets as to their maturities is presented below.

	2022	2021
One year and below	**P 301,557**	P -
Beyond one year	**4,758,250,374**	6,334,398,148
	P 4,758,551,931	P 6,334,398,148

As of December 31, 2022 and 2021, financial assets at FVOCI amounting to P2,910.0 million are pledged as collateral for certain bills payable of the Bank (see Note 18).

The interest income recognized on financial assets at FVOCI amounting to P221.9 million and P177.1 million in 2022 and 2021, respectively, is presented as part of Interest Income on Investment Securities in the statements of profit or loss. The Bank sold financial assets at FVOCI amounting to P1,896.6 million and P4,141.3 million in 2022 and 2021, respectively. The gain of P2.5 million and P20.2 million in 2022 and 2021, respectively, for such sale, is presented as part of Others under Other Income in the statements of profit or loss (see Note 22).

In 2022 and 2021, the proceeds obtained from the matured financial assets at FVOCI amounted to P791.5 million and P2,199.9 million, respectively, which includes accrued interests.

10. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of investments in bonds issued by the Philippine government with annual fixed coupon rates ranging from 3.25% to 10.25% per annum. These investments will mature on various dates until 2027.

The breakdown of these financial assets as to their maturities is presented below.

	2022	2021
One year and below	**P 150,206,272**	P 66,065,709
Beyond one year	**3,984,371,584**	2,287,194,825
	P 4,134,577,856	P 2,353,260,534

As of December 31, 2022 and 2021, financial assets at amortized cost amounting to P3,366.4 million are pledged as collateral for certain bills payable of the Bank (see Note 18).

The interest income recognized for investment securities at amortized cost, presented as part of Interest Income on Investment Securities in the statements of profit or loss, amounted to P184.0 million and P22.2 million in 2022 and 2021, respectively.

Management assessed that no impairment loss on the Bank's investment securities at amortized cost is required to be recognized in 2022 and 2021.

The reconciliation of the carrying amounts of financial assets at amortized as of December 31 are presented in the succeeding page.

	2022	2021
Balance at beginning of year	**P 2,353,260,534**	P 339,423,559
Additions	**3,900,000,000**	2,011,350,000
Maturities and disposals	**(2,115,000,000)**	-
Accrued interest receivable	**5,844,639**	5,994,940
Net increase in unamortized premium/discount during the year	**(9,527,317)**	(3,507,965)
Balance at end of year	**P 4,134,577,856**	P 2,353,260,534

In 2022, the Bank disposed of debt securities from its amortized cost portfolio amounting to P980.0 million, resulting in a trading net loss amounting to P0.9 million. These disposals were initiated by the Bank since these will already mature in less than 3 months. Management has assessed that such disposals of investment securities in 2022 are consistent with the Bank's investment at amortized cost business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Investments Committee in compliance with the documentation requirements of the BSP.

11. LOANS AND OTHER RECEIVABLES

As of December 31, the breakdown of this account follows:

	Note	2022	2021
Receivables from customers:			
Loans:			
Individual consumption		**P 61,235,631,041**	P 32,569,317,312
Commercial		**5,928,826,598**	3,271,732,542
Agricultural		**500,554,685**	537,970,370
Others		**30,235,437**	1,365,374,423
		67,695,247,761	37,744,394,647
Allowance for impairment	16	**(1,859,518,459)**	(1,561,869,822)
		65,835,729,302	36,182,524,825
Accrued interest receivable		**594,857,150**	542,048,167
Allowance for impairment	16	**(147,370,332)**	(172,931,782)
		447,486,818	369,116,385
Balance brought forwad		**66,283,216,120**	36,551,641,210

	Note	2022	2021
Balance forwarded		**66,283,216,120**	36,551,641,210
Other receivables:			
Accounts receivable		**261,896,926**	242,545,812
Allowance for impairment	16	**(39,937,045)**	(39,943,181)
		221,959,881	202,602,631
Sales contract receivable		**4,999,573**	5,739,529
Allowance for impairment	16	**(463,458)**	(463,458)
		4,536,115	5,276,071
		226,495,996	207,878,702
		P 66,509,712,116	P 36,759,519,912

No loans granted to directors, officers, stockholders and related interests (DOSRI) are outstanding as of December 31, 2022 and 2021 [see Note 26(f)].

The maturity profile of the Bank's loans is shown below.

	2022	2021
One year and below	**P 1,848,987,405**	P 1,236,595,136
Beyond one year	**65,846,260,356**	36,507,799,511
	P 67,695,247,761	P 37,744,394,647

The classification of loans as to interest rate follows:

	2022	2021
Over 25.00%	**P 4,955,319,661**	P 4,401,940,881
Over 20.00% - 25.00%	**3,093,566**	3,230,101
Over 15.00% - 20.00%	**5,073,861**	10,035,671
15.00% and below	**62,731,760,673**	33,329,187,994
	P 67,695,247,761	P 37,744,394,647

Interest income on loans and other receivables recognized amounting to P5,725.2 million and P4,127.5 million in 2022 and 2021, respectively, is presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

The breakdown of loans by status is presented as follows:

	2022	2021
Current	**P 65,002,654,630**	P 35,127,201,749
Past due	**2,691,699,073**	2,616,438,558
In litigation	**894,058**	754,340
	P 67,695,247,761	P 37,744,394,647

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization and allowance for impairment of bank premises, furniture, fixtures and equipment (BPFFE) at the beginning and end of 2022 and 2021 are shown below and in the succeeding page.

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
December 31, 2022						
Cost	P 736,445,946	P1,246,070,874	P1,172,472,741	P 634,833,487	P 1,173,000	P 3,790,996,048
Accumulated depreciation and amortization	-	(610,732,602)	(802,959,528)	(303,179,900)	-	(1,716,872,030)
Allowance for impairment	(142,963,116)	(5,335,497)	-	-	-	(148,298,613)
Net carrying amount	**P 593,482,830**	**P 630,002,775**	**P 369,513,213**	**P 331,653,587**	**P 1,173,000**	**P 1,925,825,405**
December 31, 2021						
Cost	P 739,884,936	P1,206,584,324	P1,010,199,158	P 458,378,245	P 2,325,875	P 3,417,372,538
Accumulated depreciation and amortization	-	(586,348,196)	(776,141,020)	(235,151,537)	-	(1,597,640,753)
Allowance for impairment	(145,361,107)	(5,335,497)	-	-	-	(150,696,604)
Net carrying amount	P 594,523,829	P 614,900,631	P 234,058,138	P 223,226,708	P 2,325,875	P 1,669,035,181
January 1, 2021						
Cost	P 739,884,936	P1,176,908,453	P1,003,137,275	P 344,608,488	P 6,302,000	P 3,270,841,152
Accumulated depreciation and amortization	-	(522,813,780)	(735,332,316)	(165,017,967)	-	(1,423,164,063)
Allowance for impairment	(145,361,107)	(5,335,497)	-	-	-	(150,696,604)
Net carrying amount	P 594,523,829	P 648,759,176	P 267,804,959	P 179,590,521	P 6,302,000	P 1,696,980,485

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

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 594,523,829	P 614,900,631	P 234,058,138	P 223,226,708	P 2,325,875	P 1,669,035,181
Additions	-	33,417,633	254,091,201	203,034,801	4,916,043	495,459,678
Cost of assets disposed	(3,438,990)	-	(89,290,039)	-	-	(92,729,029)
Reclassifications	-	6,068,918	-	-	(6,068,918)	-
Allowance for impairment of assets disposed	2,397,991	-	-	-	-	2,397,991
Accumulated depreciation of assets disposed	-	-	71,184,450	-	-	71,184,450
Depreciation and amortization charges for the year	-	(24,384,407)	(100,530,537)	(94,607,922)	-	(219,522,866)
Balance at December 31, 2022, net of accumulated depreciation and amortization	**P 593,482,830**	**P 630,002,775**	**P 369,513,213**	**P 331,653,587**	**P 1,173,000**	**P 1,925,825,405**

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 594,523,829	P 648,759,176	P 267,804,959	P 179,590,521	P 6,302,000	P 1,696,980,485
Additions	-	31,312,961	73,775,724	127,385,921	2,325,875	234,800,481
Cost of assets disposed	-	-	(32,815,468)	-	-	(32,815,468)
Adjustment from cost	-	-	(359,391)	(2,294,495)	-	(2,653,886)
Reclassifications	-	6,302,000	-	-	(6,302,000)	-
Accumulated depreciation of assets disposed	-	-	32,784,869	-	-	32,784,869
Depreciation and amortization charges for the year	-	(71,473,506)	(107,132,555)	(81,455,239)	-	(260,061,300)
Balance at December 31, 2021, net of accumulated depreciation and amortization	P 594,523,829	P 614,900,631	P 234,058,138	P 223,226,708	P 2,325,875	P 1,669,035,181

The recoverable amount of the land amounting to P185.9 million as of December 31, 2022 and 2021, and the recoverable amount of building amounting to P24.7 million as of both years, were based on fair value less costs to sell. The recoverable amount of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning, and accessibility. The recoverable amounts of the buildings were determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and lay-out, adjusted for obsolescence. Inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

In 2022 and 2021, the Bank recognized a gain of P25.5 million and P3.7 million, respectively, on the disposal of certain land and furniture, fixtures, and equipment, which is presented as part of Other Income in the statements of profit or loss (see Note 22).

The total depreciation and amortization expense amounted to P219.5 million and P260.1 million for the years ended December 31, 2022 and 2021, respectively, and is presented as part of Occupancy and Equipment-related Expenses under Other Operating Expenses in the statements of profit or loss.

Cost of fully-depreciated and fully-amortized assets still used in operations amounted to P716.2 million and P703.9 million in 2022 and 2021, respectively.

In 2022 and 2021, there are no bank premises, furniture, fixtures and equipment pledged as collateral for any obligation of the Bank.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this requirement.

13. LEASES

The Bank has leases for several branch offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security and must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has 330 and 277 right-of-use assets leased as of December 31, 2022 and 2021, respectively, with a remaining term that ranges from 1 to 14 years, all of which have extension and termination options and no options to purchase.

13.1 Right-of-Use Assets

The carrying amounts of the Bank's right-of-use assets as of December 31 and the movements during the year are shown below.

	2022	2021
Balance at beginning of year	**P 399,181,022**	P 252,976,612
Additions	**251,348,619**	265,815,314
Depreciation and amortization	**(140,660,849)**	(119,610,904)
Balance at end of year	**P 509,868,792**	P 399,181,022

13.2 Lease Liabilities

Breakdown of lease liabilities as to their maturities is presented below.

	2022	2021
One year and below	**P 140,161,864**	P 108,389,877
Beyond one year	**401,460,033**	313,792,004
	P 541,621,897	P 422,181,881

Presented below is the reconciliation in 2022 and 2021 of the Bank's lease liabilities, which is the only liability arising from financing activities.

	2022	2021
Balance at beginning of year	**P 422,181,881**	P 269,978,323
Cash flow from financing activity –		
Repayment of lease liabilities	**(131,908,603)**	(113,611,756)
Non-cash financing activities:		
Additional lease liabilities	**224,009,348**	248,790,522
Interest amortization on lease liabilities	**27,339,271**	17,024,792
Balance at end of year	**P 541,621,897**	P 422,181,881

Additional information on the lease liabilities and amounts in respect of possible future lease termination options not recognized as a liability are as follows:

	2022	2021
Lease liabilities	**P 541,621,897**	P 422,181,881
Lease termination options not recognized as a liability	**38,514,687**	29,566,418
Historical rate of exercise of termination option	**0.00%**	0.00%
Number of leases with an extension option that is not considered reasonably certain of exercise	**330**	277

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31 is as follows:

	2022							
	Within 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**5 to 10 years**	**10 to 14 years**	**Total**
Lease payments	P 168,155,953	P 151,694,967	P 129,719,197	P 95,888,235	P 37,200,634	P 33,287,775	P 7,164,039	P 623,110,800
Finance charges	(27,994,089)	(20,797,258)	(14,099,623)	(7,807,107)	(3,353,408)	(6,645,130)	(792,288)	(81,488,903)
Net present values	**P 140,161,864**	**P 130,897,709**	**P 115,619,574**	**P 88,081,128**	**P 33,847,226**	**P 26,642,645**	**P 6,371,751**	**P 541,621,897**

	2021							
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	10 to 16 years	Total
Lease payments	P 124,678,338	P 113,450,228	P 94,704,417	P 74,271,421	P 34,760,654	P 20,487,147	P 9,276,306	P 471,628,511
Finance charges	(16,288,461)	(11,922,782)	(7,947,325)	(4,742,917)	(2,220,785)	(5,068,944)	(1,255,416)	(49,446,630)
Net present values	P 108,389,877	P 101,527,446	P 86,757,092	P 69,528,504	P 32,539,869	P 15,418,203	P 8,020,890	P 422,181,881

13.3 Lease Payments Not Recognized as Liabilities

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

The expenses relating short-term leases and low-value assets amounted to P3.1 million and P7.2 million, respectively, for 2022, and P6.8 million and P7.0 million, respectively, for 2021, and are presented as part of Occupancy and Equipment-related Expenses under Other Operating Expenses in the statements of profit or loss.

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

13.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P131.9 million and P113.6 million in 2022 and 2021, respectively. Interest expense in relation to lease liabilities amounted to P27.3 million and P17.0 million, in 2022 and 2021, respectively, and is presented as Interest Expense on Lease Liabilities in the statements of profit or loss.

14. INVESTMENT PROPERTIES

This account represents parcels of land and buildings and related improvements, which are held for capital appreciation, acquired in settlement of loans. Investment properties are carried at cost less allowance for impairment and accumulated depreciation. Real estate tax related to investment properties amounted to P0.1 million for 2022 and 2021, and is presented as part of Others under Other Operating Expenses in the statements of profit or loss.

The gross carrying amounts and allowance for impairment of investment properties as of December 31, 2022 and 2021 are shown below.

	Note	**2022**	2021
Cost		**P 9,473,812**	P 9,698,356
Allowance for impairment	16	**(5,835,861)**	(5,835,861)
Accumulated depreciation		**(1,380,254)**	(1,040,481)
Net carrying amount		**P 2,257,697**	P 2,822,014

A reconciliation of the carrying amount at the beginning and end of 2022 and 2021 is shown below.

	2022	2021
Balance at January 1, net of allowance for impairment and accumulated depreciation	**P 2,822,014**	P 3,826,557
Disposals	**(224,544)**	(527,238)
Depreciation	**(339,773)**	(339,773)
Reclassification	**-**	(137,532)
Balance at December 31, net of allowance for impairment and accumulated depreciation	**P 2,257,697**	P 2,822,014

The Bank recognized income from disposal of investment properties in 2022 and 2021 amounting to P1.3 million and P1.5 million, respectively, and is presented as Income from disposal of investment properties under Other Income in the statements of profit or loss (see Note 22). Proceeds from disposal of investment properties amounted to P1.5 million and P2.0 million in 2022 and 2021, respectively.

The depreciation of investment properties is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

15. PREPAYMENTS AND OTHER RESOURCES

The composition of this account as of December 31 is shown below.

	Notes	2022	2021
Goodwill	15.1	**P 114,013,933**	P 114,013,933
Prepaid expenses	15.2	**54,780,408**	59,896,206
Security deposits		**38,514,687**	29,566,418
Software and other intangibles – net	15.3	**11,818,605**	22,525,501
Unused stationery and supplies		**6,322,683**	7,832,526
Other investments		**532,000**	532,000
Others	15.4	**77,749,879**	268,836,207
		303,732,195	503,202,791
Allowance for impairment	16	**(532,000)**	(532,000)
		P 303,200,195	P 502,670,791

The breakdown of prepayments and other resources as to their maturities is presented below.

	2022	2021
One year and below	**P 139,100,434**	P 357,893,094
Beyond one year	**164,099,761**	144,777,697
	P 303,200,195	P 502,670,791

15.1 Goodwill

Goodwill represents the excess of the cost of acquisition of the Bank over the fair value of net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope.

Goodwill, which is assessed to have an indefinite useful life, is subject to annual impairment testing and whenever there is an indication of impairment. The recoverable amount to determine any impairment on the goodwill was determined using discounted cash flow method approach based on five-year cash flow projection to be realized by the acquired entity and the estimated terminal value. The growth rate used to extrapolate the five-year cash flow projection ranges from 5.00% to 19.00% at a discount rate of 20.93%. The Bank also considered key assumptions in determining the cash flow projections such as profit margins, volume and growth target projection of its loans. Based on management analyses, no impairment on goodwill is required to be recognized in 2022 and 2021.

15.2 Prepaid Expenses

Prepaid expenses pertain to the Bank's advance payment of administrative expenses related to rent, insurance and other expenses. Prepaid expenses also include the balance of prepaid electronic documentary stamp tax (eDST) amounting to P50.4 million and P30.3 million as of December 31, 2022 and 2021, respectively.

15.3 Software and Other Intangibles

Software and other intangibles pertain to various purchased computer software license used in financial services activity and other operations of the Bank.

The gross carrying amounts and accumulated amortization of software and other intangibles as of December 31 are shown below.

	2022	2021
Cost	**P 53,216,374**	P 47,650,572
Accumulated amortization	**(41,397,769)**	(25,125,071)
Net carrying amount	**P 11,818,605**	P 22,525,501

A reconciliation of the carrying amounts of software and other intangibles at the beginning and end of 2022 and 2021 is shown below.

	2022	2021
Balance at beginning of year	**P 22,525,501**	P 21,897,343
Additions	**7,509,881**	9,591,191
Amortization during the year	**(18,216,777)**	(8,963,033)
Balance at end of year	**P 11,818,605**	P 22,525,501

The amortization of the software and other intangibles for 2022 and 2021 is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

15.4 Others

Others include certain advances to suppliers, outstanding settlement accounts for transactions of other banks' card holders, and other assets.

16. ALLOWANCE FOR IMPAIRMENT

The changes in the allowance for impairment are presented below.

	Notes	2022	2021
Balance at beginning of year:			
Loans and other receivables	11	**P 1,775,208,243**	P 2,148,994,786
Bank premises, furniture, fixtures and equipment	12	**150,696,604**	150,696,604
Investment properties	14	**5,835,861**	5,835,861
Prepayments and other resources	15	**532,000**	532,000
		1,932,272,708	2,306,059,251
Impairment losses:			
Loans and other receivables		**733,702,116**	236,906,200
Investment securities at FVOCI	9	**99,208**	-
		733,801,324	236,906,200
Write-off of loans and other receivables	4.3.5	**(461,621,065)**	(610,859,579)
Disposal of land	12	**(2,397,991)**	(166,836)
		(464,019,056)	(610,692,743)
Balance at end of year:			
Loans and other receivables	11	**2,047,289,294**	1,775,208,243
Bank premises, furniture, fixtures and equipment	12	**148,298,613**	150,696,604
Investment properties	14	**5,835,861**	5,835,861
Prepayments and other resources	15	**532,000**	532,000
Investment securities at FVOCI	9	**99,208**	-
		P 2,202,054,976	P 1,932,272,708

17. DEPOSIT LIABILITIES

As of December 31, deposit liabilities consist of the following:

	2022	2021
Demand	**P 1,270,849,400**	P 1,276,771,782
Savings	**36,826,244,364**	31,012,297,465
Time	**29,013,555,924**	14,750,083,338
	P67,110,649,688	P 47,039,152,585

Savings deposits have an annual interest rates ranging from 0.13% to 1.50% and 0.13% to 1.00% for 2022 and 2021, respectively, while time deposits have interest rates ranging from 0.13% to 6.25% and 0.13% to 3.25% per annum in 2022 and 2021, respectively.

The breakdown of time deposits as to their maturities is presented below.

	2022	2021
One year and below	**P 27,292,877,898**	P 13,770,919,771
Beyond one year	**1,720,678,026**	979,163,567
	P 29,013,555,924	P 14,750,083,338

Interest expense on deposit liabilities recognized during the year amounted to P812.4 million and P248.8 million in 2022 and 2021, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

Deposit liabilities amounting to P135.6 million and P38.8 million as of December 31, 2022 and 2021, respectively, were held as collateral against certain loans [see Note 26(e)].

18. BILLS PAYABLE

The bills payable of the Bank amounting to P6,533.0 million as of December 31, 2022 (nil in 2021) represents borrowings from local banks.

The reconciliation of the carrying amount of bills payable as of December 31, 2022 is presented below.

Balance at beginning of year	P -
Additional borrowings	7,100,000,000
Repayments	(628,205,556)
Interest expense	61,251,389
Balance at end of year	**P 6,533,045,833**

Annual interest rates on bills payable range from 3.75% to 6.25% which will mature on various dates until 2024. Interest expense on bills payable recognized during the year amounted to P61.3 million and nil in 2022 and 2021, respectively, and is presented as Interest Expense on Bills Payable in the statements of profit or loss.

As of December 31, 2022, bills payable to BDO amounting to P2,505.6 million are secured with government securities (see Notes 9 and 10).

19. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	2022	2021
Accounts payable		**P 669,780,945**	P 452,988,659
Accrued expenses		**663,914,641**	337,504,944
Withholding tax payable		**92,391,192**	59,477,847
Manager's check		**66,279,944**	62,035,240
Post-employment defined benefit obligation	23.2	**-**	106,302,790
Other payables		**38,553,577**	39,827,069
		P 1,530,920,299	P 1,058,136,549

Accrued expenses include administrative expenses.

The breakdown of accrued expenses and other liabilities as to their maturities is presented below.

	2022	2021
One year and below	**P 1,517,093,592**	P 1,024,190,558
Beyond one year	**13,826,707**	33,945,991
	P 1,530,920,299	P 1,058,136,549

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2022	2021	**2022**	2021
Preferred stock – P10 par value				
Authorized – 30,000,000 shares				
Issued and outstanding	**20,560**	20,560	**P 205,600**	P 205,600
Common stock – P10 par value				
Authorized – 550,000,000 shares				
Issued and outstanding				
Balance at beginning of year	**346,829,494**	346,829,494	**P 3,468,294,940**	P 3,468,294,940
Issued during the year	**157,369,785**	-	**1,573,697,850**	-
Balance at end of year	**504,199,279**	346,829,494	**5,041,992,790**	3,468,294,940
Less subscription receivable				
Balance at beginning of year	**-**	-	**-**	-
Issued during the year	**14,163,281**	-	**141,632,810**	-
Balance at end of year	**14,163,281**	-	**141,632,810**	-
	490,056,558	**346,850,054**	**P 4,900,565,580**	P 3,468,500,540

The preferred shares pertain to Government Preferred Stock "A" and is issued only against government investment in the capital stock of the Bank. They shall have preference over the common stocks in the assets of the Bank in the event of liquidation, as provided in its AOI. Preferred stock "A" are non-voting and are not convertible to common shares.

As of December 31, 2022 and 2021, the Bank has 384 and 460 stockholders, respectively. Of the total number of stockholders, 274 and 349 beneficial stockholders own 100 or more shares each of the Bank's capital stock as of December 31, 2022 and 2021, respectively.

On January 8, 2021, the Bureau of Internal Revenue (BIR) Certificate Authorizing Registration was issued for the additional 5.00% shareholdings sold to Osmanthus Investments Holdings Pte. Ltd. (Singapore) in 2019, which is equivalent to 17,341,475 shares.

On August 18, 2022, BDO Unibank, Inc. and Osmanthus Investments Holdings Pte. Ltd. (Singapore) subscribed and paid additional 53,505,727 and 9,442,187 common shares of the Bank, respectively, for a subscription price of P1,700.0 million and P300.0 million, respectively, resulting to an additional paid-in capital of P1,165.0 million and P205.6 million, respectively.

On October 28, 2022 BDO Unibank, Inc. subscribed and paid additional 80,258,590 common shares of the Bank for a subscription price of P2,550.0 million, resulting to an additional paid-in capital of P1,747.4 million. On the same date, Osmanthus Investments Holdings Pte. Ltd. (Singapore) subscribed additional 14,163,281 common shares for a subscription price of P450.0 million, which remained unpaid as of December 31, 2022.

20.2 Other Reserves

The components and reconciliation of items of other reserves presented in the statements of changes in equity at their aggregate amount under Other Reserves account (see also Note 20.4), are shown in the succeeding page.

	Self-insurance	General Loan Loss Appropriation	Preferred Share Redemption	Total
Balance at January 1, 2022	P 35,000,000	P 206,145,411	P 205,600	P 241,351,011
General loan loss appropriation	-	166,624,298	-	166,624,298
Additional appropriation for self-insurance	4,717,503	-	-	4,717,503
Balance at December 31, 2022	**P 39,717,503**	**P 372,765,709**	**P 205,600**	**P 412,692,812**
Balance at January 1, 2021	P 32,500,000	P 126,820,076	P 205,600	P 159,525,676
General loan loss appropriation	-	79,325,335	-	79,325,335
Additional appropriation for self-insurance	2,500,000	-	-	2,500,000
Balance at December 31, 2021	P 35,000,000	P 206,145,411	P 205,600	P 241,351,011

20.3 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Unrealized Gain or Loss on Financial Assets at FVOCI	Actuarial Gain or Loss on Post-employment Defined Benefit Obligation	Total
Balance at January 1, 2022	(P 82,860,108)	(P 377,309,538)	(P 460,169,646)
Fair value loss on financial assets at FVOCI - net	(424,785,517)	-	(424,785,517)
Remeasurements of post-employment defined benefit obligation	-	41,426,736	41,426,736
Other comprehensive gain (loss) before tax	(424,785,517)	41,426,736	(383,358,781)
Tax expense	-	(10,356,684)	(10,356,684)
Other comprehensive gain (loss) after tax	(424,785,517)	31,070,052	(393,715,465)
Balance at December 31, 2022	**(P 507,645,625)**	**(P 346,239,486)**	**(P 853,885,111)**
Balance at January 1, 2021	P 105,363,338	(P 252,359,572)	(P 146,996,234)
Fair value loss on financial assets at FVOCI - net	(188,223,446)	-	(188,223,446)
Remeasurements of post-employment defined benefit obligation	-	(142,565,710)	(142,565,710)
Other comprehensive loss before tax	(188,223,446)	(142,565,710)	(330,789,156)
Tax income	-	17,615,744	17,615,744
Other comprehensive loss after tax	(188,223,446)	(124,949,966)	(313,173,412)
Balance at December 31, 2021	(P 82,860,108)	(P 377,309,538)	(P 460,169,646)

20.4 Surplus

In compliance with the requirements of the BSP, Circular No. 1011, which requires financial institutions to set up GLLP equivalent to 1.00% of all outstanding 'Stage 1' on-balance sheet loan accounts, the Bank appropriated P372.8 million for GLLP representing the excess of the 1.00% required allowance of the BSP over the computed allowance for ECL on loans (see Note 2.17). In 2022 and 2021, the Bank appropriated its Surplus Free for GLLP amounting to P166.6 million and P79.3 million, respectively. This appropriation was recognized as part of Other Reserves account (see Note 20.2).

The Bank also appropriated additional self-insurance amounting to P4.7 million and P2.5 million in 2022 and 2021, respectively.

In compliance with the Manual of Regulation for Banks (MORB), a portion of the Bank's surplus corresponding to the accumulated balance of deferred income tax amounting to P438.3 million as of December 31, 2022 is not available for dividend declaration until realized by the Bank.

20.5 Capital Management and BSP Reporting Compliance

(a) Capital Management and Regulatory Capital

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

The MB, in its Resolution No. 1145 dated August 4, 2022, approved the new minimum capitalization requirements for banks (BSP Circular 1151). For rural banks with more than 10 branches, inclusive of head office, the required minimum capitalization is P200.0 million. Based on the foregoing, the Bank has complied with the BSP capitalization requirement.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

(i) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(ii) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
(iii) deferred tax asset or liability;
(iv) goodwill;
(v) sinking fund for redemption of redeemable preferred shares; and,
(vi) other regulatory deductions.

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

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

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(i) Common Equity Tier 1 (CET1) of at least 6.00% of risk-weighted assets;
(ii) Tier 1 Capital of at least 7.50% of risk-weighted assets;
(iii) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.00% of risk-weighted assets; and,
(iv) Capital Conservation Buffer of 2.50% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

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

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

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2022 and 2021 are as follows (in thousands):

		2022		2021
Tier 1 Capital				
CET 1	**P**	**10,572,415**	P	5,294,357
Additional Tier 1		**206**		206
		10,572,621		5,294,563
Tier 2 Capital		**692,765**		392,094
Total Regulatory Capital	**P**	**11,265,386**	P	5,686,657
Total Qualifying Capital	**P**	**11,265,386**	P	5,686,657
Total Risk-weighted assets	**P**	**78,154,413**	P	45,919,216
Capital ratios:				
CET 1 Ratio		**13.53%**		11.53%
Capital Conservation Buffer		**7.53%**		5.53%
Tier 1 Capital Ratio		**13.53%**		11.53%
Total Capital Adequacy Ratio		**14.41%**		12.38%

The Bank has fully adopted Basel 3 starting 2016.

(b) *Leverage Ratio*

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel 3 leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

The Bank's Basel 3 leverage ratio as reported to the BSP are as follows (in thousands):

	2022	2021
Tier 1 Capital	**P 11,022,621**	P 5,294,563
Exposure measure	**87,229,798**	54,753,991
	12.57%	9.67%

(c) *Liquidity Coverage Ratio and Net Stable Funding Ratio*

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel 3 Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel 3 framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day period under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100.00% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR as of December 31, 2022 and 2021 is analyzed below (in thousands).

	2022	2021
Total stock of HQLA / Expected Net Cash Outflows*	**118.4%**	200.47%

**Includes Restricted Term Deposits and Deposits pledged as collateral or under hold-out arrangements*

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR as of December 31, 2022 and 2021 are summarized below (in thousands).

	2022	2021
Available stable funding	P 65,119,466	P 43,100,841
Required stable funding	60,649,819	37,075,321
	107%	116%

21. RELATED PARTY TRANSACTIONS

The Bank's related parties include the Parent Bank, its DOSRI and others as described below and in the succeeding pages. None of the transactions incorporates special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

Related Party Category	Note	Amount of Transactions 2022	Amount of Transactions 2021	Outstanding Balance 2022	Outstanding Balance 2021
Parent					
Due from other banks	21.1	P 785,928,236	P 187,031,767	P 1,706,736,775	P 920,808,539
Interest income on due from other banks	21.1	593,646	600,802	-	-
Right-of-use asset	21.4	(37,466,403)	15,208,183	21,788,545	59,254,948
Lease liabilities	21.4	(17,148,287)	16,208,162	45,554,771	62,703,058
Service fee	21.6	83,712,754	72,714,817	179,402,751	-
Bills payable	21.7	2,505,566,667	-	2,505,566,667	-
Interest expense on bills payable	21.7	33,772,222	-	5,566,667	-
Related parties under common ownership					
Due from other banks	21.1	(302,087,349)	300,028,297	1,012,535	303,099,884
Interest income on due from other banks	21.1	4,791,334	860,728	-	-
Deposits	21.1	3,017	731	3,018,465	3,015,448
Interest expense on deposits	21.1	3,017	710	-	-
Investment securities at FVOCI	21.2	(5,907,508)	(1,562,673)	98,265,627	104,173,135
Interest income on investments	21.2	5,757,649	5,757,649	-	-
Right-of-use asset	21.4	(2,516,701)	(897,024)	-	2,516,701
Lease liabilities	21.4	(2,991,274)	(800,275)	-	2,991,274

Related Party Category	Note	Amount of Transactions 2022	2021	Outstanding Balance 2022	2021
Directors					
Deposits	21.1	**11,091,678**	39,512,747	**84,336,366**	73,244,688
Officers					
Deposits	21.1	**(6,919,949)**	3,917,040	**5,601,177**	12,521,126
DOSRI					
Interest expense on deposits	21.1	**935,541**	762,050	**-**	-
Key management personnel					
Compensation and benefits	21.3	**164,951,305**	148,627,000	**-**	-

21.1 Deposits

In the ordinary course of business, the Bank has deposit transactions with the Parent Bank, related parties under common ownership, and its DOSRI. Under the Bank's policy, these transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

The total deposits from related parties under common ownership and DOSRI has outstanding balance of P93.0 million and P88.9 million as of December 31, 2022 and 2021, respectively.

Due from other banks include deposits with the Parent Bank and CBC, a related party under common ownership, amounting to P1,707.7 million and P1,223.9 million as of December 31, 2022 and 2021, respectively. Interest rate for these due from other banks ranges from 0.13% to 0.25% per annum in 2022 and 2021. Interest income on these deposits with other banks amounted to P5.4 million and P1.5 million in 2022 and 2021, respectively, which is presented as part of Interest Income on Deposits with Other Banks in the statements of profit or loss.

21.2 Investment Securities at FVOCI

The Bank acquires private-issued security from SM Prime Holdings to earn interest income and realize trading gains (see Note 9).

As of December 31, 2022 and 2021, the outstanding investment from SM Prime Holding have a coupon rate of 5.74%, and is presented as part of Investment Securities in FVOCI in the statements of financial position.

In 2022 and 2021, interest income earned from investment from SM Prime Holdings amounted to P5.8 million, and is presented as part of Interest Income on Investments Securities in the statements of profit or loss.

21.3 Key Management Personnel Compensations

The compensations of key management personnel are broken down as follows:

	2022	2021
Short-term benefits	**P 145,835,000**	P 116,820,000
Post-employment benefits	**19,116,305**	31,807,000
	P 164,951,305	P 148,627,000

These are presented as part of Compensation and employee benefits under Other Operating Expenses in the statements of profit or loss (see Note 23.1).

21.4 Leases

The Bank, as a lessee, recognized right-of-use assets related to lease of space from the Parent Bank and a related party under common ownership for its branch operations, amounting to P21.8 million and P61.8 million as of December 31, 2022 and 2021, respectively, which are presented as part of Right-of-Use Assets in the Bank's statement of financial position (see Note 13). Depreciation of the right-of-use assets arising from this transaction, amounting to P11.0 million and P19.2 million in 2022 and 2021, respectively, is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

The interest expense on lease liability, which amounted to P0.8 million and P3.8 million in 2022 and 2021, respectively, is included as part of Interest Expense on Lease Liabilities in the statements of profit or loss. The outstanding balance of these transactions amounted to P45.6 million and P65.7 million as of December 31, 2022 and 2021, respectively, and is included as part of Lease Liabilities in the statements of financial position.

21.5 Retirement Plan

The Bank's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank, which is the Parent Bank. The fair value and the composition of the plan assets as of December 31, 2022 and 2021 are presented in Note 23.2.

The retirement fund neither provides any guarantee or surety for any obligations of the Bank nor its investments covered by any restrictions or liens.

The details of the contributions of the Bank and benefits paid out by the plan are presented in Note 23.2.

21.6 Service Line Agreement with the Parent Bank

The Bank engaged the Parent Bank, under a service agreement to obtain support such as maintenance, administration of properties/assets, management, supplies procurement, facilities management, accounting functions, loan documentation, human resources management, information technology needs, internal audit, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues.

The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the Bank to the Parent Bank. Total service fees are presented as part of Fees and Commissions under Other Operating Expenses in the statements of profit or loss. The outstanding balance arising from these transactions as of December 31, 2022 and 2021 amounted to P179.4 million and nil, respectively.

Effective January 3, 2022, additional services were outsourced to the Parent Bank including loan operations and administration services, safekeeping/custodianship of securities and collateral documents, central reconciliation services, records warehousing and vendor management, check clearing services, contact center services, remittance operations, transaction processing and adjustment services, cash services, reconciliation and settlement services, documentation and enrollment of Cash Management Service clients, fraud management, and corporate secretarial services.

21.7 Bills Payable

The Bank avails its credit line from the Parent Bank for loan funding purposes. In 2022, the amount drawn from its credit line with the Parent Bank amounted to P3.1 billion. Annual interest rates range from 3.75% to 6.00%, payable monthly, and will mature on various dates in 2023.

The interest expense on bills payable, which amounted to P33.7 million and nil in 2022 and 2021, respectively, is included as part of Interest Expense on Bills Payable in the statements of profit or loss. The outstanding balance of these transactions amounted to P2,505.7 million and nil as of December 31, 2022 and 2021, respectively, and is included as part of Bills Payable in the statements of financial position (see Note 18).

22. OTHER INCOME

This account is composed of the following:

	Notes		2022		2021
Recoveries from accounts written off		**P**	**54,169,234**	P	29,865,060
Income from disposal of BPFFE	12		**25,539,914**		3,660,381
Rental income			**4,805,596**		3,660,138
Income from disposal of investment properties	14		**1,269,456**		1,474,662
Others	9		**10,951,241**		21,941,328
		P	**96,735,441**	P	60,601,569

Others pertain to interbranch transactions, Unit Investment Trust Fund, Deposit Pick-Up, utility bills payment charges, sale of automated teller machine jackets and lost passbook replacement fees.

23. EMPLOYEE BENEFITS

23.1 Compensation and Employee Benefits

Expenses recognized for compensation and employee benefits are presented below.

	Note	2022	2021
Short-term employee benefits		**P 3,007,110,478**	P 2,593,046,316
Post-employment defined benefit	23.2	**215,119,655**	461,419,294
		P 3,222,230,133	P 3,054,465,610

There are no outstanding short-term employee benefits as of December 31, 2022 and 2021.

23.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The trustee bank managed the fund in coordination with the Bank's Retirement Plan Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service and late retirement after age 60 but not beyond age 65, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150.00% of plan salary for every year of credited service. The normal and late retirement benefits shall be computed in accordance with the retirement benefit formula as of normal or late retirement date.

(b) Explanation of Amounts Presented in the Financial Statements

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

The amounts of post-employment defined benefit obligation recognized in the statements of financial position (see Note 19) are determined as follows:

	2022	2021
Present value of the obligation	**P 2,066,696,561**	P 2,091,838,094
Fair value of plan assets	**(2,066,696,561)**	(1,985,535,304)
	P -	P 106,302,790

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2022	2021
Balance at beginning of year	**P 2,091,838,094**	P 1,260,452,969
Current service cost	**215,119,655**	79,926,520
Interest expense	**127,927,734**	41,190,386
Benefits paid	**(72,024,415)**	(47,572,624)
Transfer to (from) the plan	**(53,574,710)**	98,498,623
Past service cost – plan amendment	**-**	381,492,774
Remeasurements:		
Actuarial (gains) losses arising from:		
Changes in financial assumptions	**(274,996,017)**	(390,757,312)
Changes in demographic assumptions	**21,864,412**	186,028,517
Experience adjustments	**10,541,808**	482,578,241
Balance at end of year	**P 2,066,696,561**	P 2,091,838,094

The movements in the fair value of plan assets are presented below.

	2022	2021
Balance at beginning of year	**P 1,985,535,304**	P 1,157,024,188
Contributions to the plan	**303,574,926**	609,898,609
Gain (loss) on plan assets (excluding amounts included in net interest)	**(201,163,061)**	135,283,736
Interest income	**104,348,517**	32,402,772
Benefits paid	**(72,024,415)**	(47,572,624)
Transfer to (from) the plan	**(53,574,710)**	98,498,623
Balance at end of year	**P 2,066,696,561**	P 1,985,535,304

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2022	2021
Debt securities:		
Government bonds	**P 1,105,388,283**	P 931,601,847
Corporate bonds	**446,051,958**	526,072,282
Unit investment trust funds	**354,236,931**	428,969,757
Equity securities	**110,769,508**	42,386,624
Loans and other receivables	**23,309,623**	23,860,217
Cash and cash equivalents	**5,778,012**	3,511,416
Other properties	**21,162,246**	29,133,161
	P 2,066,696,561	P 1,985,535,304

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets incurred a negative return of P96.8 million in 2022 and earned a return of P167.7 million in 2021.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are presented below.

	2022	2021
Reported in profit or loss:		
Current service cost	**P 215,119,655**	P 79,926,520
Net interest expense	**23,579,217**	8,787,614
Past service cost	**-**	381,492,774
	P 238,698,872	P 470,206,908
Reported in other comprehensive income (loss):		
Gain (loss) on plan assets*	**(P 201,163,061)**	P 135,283,736
Actuarial gains (losses) arising from:		
Changes in financial assumptions	**274,996,017**	390,757,312
Changes in demographic assumptions	**(21,864,412)**	(186,028,517)
Experience adjustments	**(10,541,808)**	(482,578,241)
	P 41,426,736	P 142,565,710

**Excluding amounts included in net interest expense (income).*

Current and past service costs are allocated and presented in the statements of profit or loss as part of Compensation and employee benefits under Other Operating Expenses (see Note 23.1). Net interest cost (income) on post-employment defined benefit plan is presented under Interest Expense (Income) in the statements of profit or loss.

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

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

	2022	2021
Discount rates	**7.6%**	5.0%
Expected rate of salary increases	**5.0% - 14.0%**	4.5% - 9.5%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25.6 years both for male and female. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2022 and 2021:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2022			
Discount rate	**+/- 1.00%**	**(P 243,236,713)**	**P 293,982,978**
Salary growth rate	**+/- 1.00%**	**285,329,338**	**(241,575,921)**
December 31, 2021			
Discount rate	+/- 1.00%	(P 260,272,964)	P 318,121,892
Salary growth rate	+/- 1.00%	306,443,251	(256,999,526)

The sensitivity analysis in the previous page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

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

(iii) Funding Arrangements and Expected Contributions

The Bank is not required to pre-fund the future defined benefit payable under the retirement plan before it becomes due. For this reason, the amount and timing of contributions to the retirement fund are at the Bank's discretion. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the retirement fund.

The plan is currently fully funded based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31, 2022 and 2021 follows:

	2022	2021
Within one year	P 175,831,945	P 189,761,654
More than one year to five years	760,973,608	600,577,229
More than five years to ten years	1,510,239,438	1,192,370,853
	P 2,447,044,991	P 1,982,709,736

The Bank does not expect to make any contributions to the plan during the next financial year.

The weighted average duration of the defined benefit obligation at the end of the year is 13.2 years.

24. CURRENT AND DEFERRED TAXES

The components of tax expense (income) as reported in profit or loss and other comprehensive income are as follows:

	2022	2021
Reported in profit or loss:		
Current tax expense:		
RCIT at 25%	P 401,082,976	P 90,533,828
Final tax at 20%	94,071,878	48,352,625
Adjustment in 2020 income taxes due to change in income tax rate	-	(8,703,242)
	495,154,854	130,183,211
Deferred tax expense:		
Origination and reversal of temporary differences	133,284,814	61,914,127
Effect of the change in income tax rate	-	13,984,336
	133,284,814	75,898,463
	P 628,439,668	P 206,081,674
Reported in other comprehensive income:		
Deferred tax expense (income) relating to:		
Origination and and reversal of temporary difference	P 10,356,684	(P 35,641,428)
Effect of the change in income tax rate	-	18,025,684
	P 10,356,684	(P 17,615,744)

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax income reported in profit or loss is as follows:

	2022	2021
Tax on pretax income at 25%	**P 440,622,343**	P 147,348,590
Adjustment for income subjected to lower income tax rate	**(24,010,822)**	(5,535,365)
Effect of the change in income tax rate	**-**	5,281,094
Tax effects of:		
Unrecognized deferred tax asset on impairment of financial assets	**183,474,554**	45,242,214
Non-deductible interest expense	**23,616,540**	10,777,598
Non-deductible other expenses	**3,635,283**	2,836,422
Others	**1,101,770**	131,121
Tax expense	**P 628,439,668**	P 206,081,674

The deferred tax assets relate to the following as of December 31, 2022 and 2021:

	Statements of Financial Position		**Profit or Loss**		**Other Comprehensive Income**	
	2022	2021	**2022**	2021	**2022**	2021
Allowance for impairment	**P 215,956,288**	P 331,404,916	**(P 115,448,628)**	(P 152,714,822)	**P -**	P -
Post-employment defined benefit plan	**222,319,891**	250,512,761	**(17,836,186)**	76,816,359	**(10,356,684)**	17,615,744
Deferred tax assets	**P 438,276,179**	P 581,917,677				
Deferred tax income (expense)			**(P 133,284,814)**	(P 75,898,463)	**(P 10,356,684)**	P 17,615,744

In 2022 and 2021, the Bank is subject to the minimum corporate income tax (MCIT), which is computed at 1% of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. The Bank's RCIT was higher than MCIT in 2022 and 2021.

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

25. COMMITMENTS AND CONTINGENCIES

25.1 Capital Commitments

The Bank has no capital commitments as of December 31, 2022 and 2021.

25.2 Unused Lines of Credit

As of December 31, 2022 and 2021, the Bank has unused lines of credit amounting to P4.2 billion and P4.3 billion, respectively.

25.3 Credit Line Facilities

As of December 31, 2022 and 2021, the Bank has commitment on credit line facilities amounting to nil and P3.3 billion, respectively.

25.4 Contingencies

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the Bank's financial statements. The Bank's management is of the opinion that losses, if any, as of December 31, 2022 and 2021, from these claims will not have any material effect on the Bank's financial statements.

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL PILIPINAS

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

(a) Selected Financial Performance Indicators

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

	2022	2021
Return on average equity:		
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	**12.79%**	6.20%
Return on average assets:		
$\frac{\text{Net profit}}{\text{Average total resources}}$	**1.60%**	0.80%
Net interest margin:		
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	**8.22%**	9.72%

(b) Capital Instruments Issued

Summarized below are the capital instruments issued by the Bank as of the end of the reporting periods. The significant information related to each instrument are described in more detail in the respective note.

Type of Instrument	Note	**2022**	2021
Common share (CET 1)	20.1	**P 5,041,992,790**	P 3,468,294,940
Preferred share (AT 1)	20.1	**205,600**	205,600

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

	2022	%	2021	%
Consumption	**P 61,235,631,041**	**90.46%**	P 32,569,317,312	86.29%
Wholesale and retail trade	**3,860,328,027**	**5.70%**	3,270,836,400	8.67%
Agricultural	**635,145,206**	**0.94%**	538,866,512	1.43%
Financial and insurance activities	**503,993,781**	**0.74%**	6,344,803	0.02%
Manufacturing	**416,433,210**	**0.62%**	389,076,126	1.03%
Accommodation and food storage	**184,710,112**	**0.27%**	165,465,763	0.44%
Human health and social work activities	**116,473,988**	**0.17%**	133,148,830	0.35%
Construction	**89,869,263**	**0.13%**	103,222,517	0.27%
Transportation and storage	**38,866,842**	**0.06%**	38,348,432	0.10%
Administrative and support services	**38,391,888**	**0.06%**	28,914,052	0.08%
Education	**34,799,741**	**0.05%**	33,642,659	0.09%
Real estate, rental and business activities	**22,219,629**	**0.03%**	34,259,327	0.09%
Mining and quarrying	**20,142,989**	**0.03%**	20,787,410	0.06%
Professional and technical services	**18,986,995**	**0.03%**	15,008,894	0.04%
Information and communication	**11,090,661**	**0.02%**	10,930,716	0.03%
Water supply, sewerage, waste management and remediation activities	**4,520,834**	**0.01%**	2,796,990	0.01%
Electricity, gas, and aircon supply	**2,237,599**	**0.00%**	3,564,216	0.01%
Arts, entertainment and recreation	**2,031,864**	**0.00%**	1,010,253	0.00%
Other service activities	**459,374,091**	**0.68%**	378,853,435	1.00%
	P 67,695,247,761	**100.00%**	P 37,744,394,647	100.00%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio plus the outstanding interbank loans receivable or 10.00% of Tier 1 capital. Management believes that the Bank's loan concentration in consumption as of December 31, 2022 and 2021 is justifiable considering that the main loan product of the Bank is Salary Loans with individuals as target clientele.

(d) Credit Status of Loans

The breakdown of total loans (receivable from customers) as to status is shown below.

	2022		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Consumer	P 65,500,171,578	P 1,924,179,343	P 67,424,350,921
Corporate	268,948,185	1,948,655	270,896,840
	65,769,119,763	1,926,127,998	67,695,247,761
Allowance for ECL	(553,946,426)	(1,305,572,033)	(1,859,518,459)
Net carrying amount	**P 65,215,173,337**	**P 620,555,965**	**P65,835,729,302**

	2021		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Consumer	P 35,481,725,317	P 2,015,566,783	P 37,497,292,100
Corporate	243,017,309	4,085,238	247,102,547
	35,724,742,626	2,019,652,021	37,744,394,647
Allowance for ECL	(400,294,769)	(1,161,575,053)	(1,561,869,822)
Net carrying amount	P 35,324,447,857	P 858,076,968	P 36,182,524,825

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

The breakdown of total loans (receivable from customers, net of unearned discounts) as to security follows:

	Notes	**2022**	2021
Secured			
Real estate mortgage		**P 644,381,183**	P 833,122,786
Deposit hold-out	5.6, 17	**135,614,556**	38,777,040
Other securities		**1,450,148**	1,752,133
		781,445,887	873,651,959
Unsecured		**66,913,801,874**	36,870,742,788
		P 67,695,247,761	P 37,744,394,747

(f) Information on Related Party Loans

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

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

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

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2022	2021	**2022**	2021
Total outstanding loans	**P -**	P -	**P -**	P -
% of loans to total loan portfolio	**0.00%**	0.00%	**0.00%**	0.00%
% of unsecured loans to total loans	**0.00%**	0.00%	**0.00%**	0.00%
% of past due loans to total loans	**0.00%**	0.00%	**0.00%**	0.00%
% of non-performing loans to total loans	**0.00%**	0.00%	**0.00%**	0.00%

(g) Secured Liabilities and Assets Pledged as Security

Aggregate amount of secured liabilities as of December 31, 2022 amounted to P2,505.7 million (nil as of December 31, 2021), while aggregate amount of resources pledged as security as of December 31, 2022 amounted to P6,276.5 million (nil as of December 31, 2021).

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

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of the end of reporting period is presented below.

	2022	2021
Late deposits/payments received	**P 18,344,089**	P 10,772,808
Other contingent accounts	**88,622**	84,013

27. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages are the supplementary information required by the BIR under Revenue Regulation (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) Gross Receipts Tax (GRT)

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the Tax Code.

During 2022, the Bank paid GRT amounting to P577,856,100 of which, P143,549,907 is accrued and is part of Accrued Expenses under Accrued Expenses and Other Liabilities in the 2022 statement of financial position. The amount is presented as part of Taxes and Licenses under Operating Expenses in the 2022 statement of profit or loss [see Note 27(e)].

(b) Taxes on Importation

The Bank does not have any landed cost, customs duties and tariff fees in 2022 since it does not have any importation during the year.

(c) Excise Tax

The Bank did not have any transactions in 2022, which are subject to excise tax.

(d) Documentary Stamp Tax (DST)

In general, the Bank's DST transactions arise from the execution of debt instruments, time deposits and issuance of new shares.

For the year ended December 31, 2022, the composition of DST is as follows:

Debt instruments	P	408,046,953
Time deposits		193,157,985
Checks		10,042,200
Others		18,716,678
	P	**629,963,816**

On the other hand, the DST amounting to P408,046,953 pertaining to the Bank's loan releases are shouldered by its corresponding borrowers. However, the remittance is done by the Bank. Total DST remittances for the year ended December 31, 2022 amounted to P632,616,856. As of December 31, 2022, the Bank has an outstanding prepaid eDST load amounting to P50,444,027. The DST amounting to P246,691,552 was shouldered by the Bank.

The DST shouldered by the Bank are recorded as an expense and is included in the taxes and licenses under Other Operating Expenses in the 2022 statement of profit or loss [see Note 27(e)].

(e) *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2022 are as follows:

	Notes		
GRT	27(a)	P	577,791,768
DST	27(d)		246,691,552
Business permits			32,201,039
Deficiency taxes	27(g)		8,078,047
Real property tax			8,666,824
FBT			237,075
Miscellaneous			2,776,202
		P	**876,442,507**

The amount of taxes and licenses are included as part of Other Operating Expenses in the 2022 statement of profit or loss.

(f) *Withholding Taxes*

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

Compensation and employee benefits	P	269,761,270
Final		137,498,234
Expanded		60,280,441
Fringe benefit		237,075
	P	**467,777,020**

(g) *Deficiency Tax Assessments and Tax Cases*

In 2022, the Bank paid deficiency taxes on income tax, withholding tax compensation, expanded and final withholding tax, percentage tax, documentary stamp tax, and fringe benefit tax for the taxable period 2020 amounting to P8,078,047, which includes interest and charges amounting to P1,428,656. The amount is recorded as part of Taxes and Licenses under Other Operating Expenses in the 2022 statement of profit or loss [see Note 27(e)].

As of December 31, 2022, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.

Management Report

ANNEX B

BDO Network Bank (BDONB)

MANAGEMENT REPORT

I. AUDITED FINANCIAL STATEMENTS

The audited financial statements of BDO Network Bank, Inc. ("**BDONB**" or the "**Bank**") for the years ended 31 December 2022 and 2021 are incorporated herein by reference.

II. INFORMATION CONCERNING DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements of the Bank for the years ended 31 December 2022 and 2021 have been audited by Punongbayan and Araullo (P & A), in accordance with generally accepted accounting principles. The Bank has not had any disagreements with any of its former or present accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which led to a change in external auditors and if not resolved to the satisfaction of any of these accountants, would have caused the latter to make reference to the subject matter of the disagreement in connection with its report.

III. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

(1) Management's Discussion and Analysis

Financial Performance

BDO Network Bank demonstrated continued strong growth as the market recovery created demand for working capital.

In 2022, the Bank experienced another record-breaking year in new branch openings with 90 new branches, a 37% increase over 2021's previous record. Salary loan growth was at its highest rate in 2022 as the change in allowable maximum tenor of salary loans to Department of Education employees was increased from three to five years, and, as the economy gaining improvement in the second half of 2022, loan demand among micro, small and medium enterprises (MSMEs) increased. That said, the sharp rise in interest rates have increased funding costs and increased mark-to market losses, applying pressure on retained earnings.

Gross customer loans increased by 79% from P37.7 billion to P67.7 billion and total assets increased by 59% from P54.7 billion to 87.2 billion. Due to the Bank's continued accessibility and reliability, total deposits registered a 43% increase from P47.0 billion to 67.1 billion, while current account/savings account (CASA) levels grew 18%, from P32.3 billion to P38.1 billion. For 2022, BDONB's net income increased 196% to P1.1 billion, up from P383.3 million in 2021.

Income from interest-generating activities increased 30% from P4.1 billion to P5.3 billion and non-interest income 88% from P2.1 billion to P3.9 billion. Gross operating income grew by 50% from

P6.2 billion to P9.2 billion, while operating expenses increased 26% from P5.3 billion to P6.7 billion.

In 2022, BDONB continued to fulfill its vision to be the leading bank for underserved communities by extending reach beyond current infrastructure limitations, providing relevant products and services that add value to communities and providing meaningful jobs to highly qualified employees in their own hometowns. Putting premium on convenience for customers, BDONB offices have long reverted to standard banking hours, employees continued reaching out to customers in their homes and places of work and branches remain to be among the first to restore critical services after a calamity or major disruption.

a. **Balance Sheet – 2022 vs. 2021**

- Cash and Other Cash Items decreased by 16% against previous year to P2.2 billion.
- Due from Other Local Banks hiked by 82% to P6.5 billion
- Investment in Securities grew by 2% to P8.9 billion funded by excess funds from deposit generated.
- Loans and Other Receivables, on a net basis, grew by 88% to P69.8 billion.
- Investment Properties dropped by 20% to P2.4 million due to various disposals.
- Total resources hiked by 59% to P87.2 billion mainly from growth in Loans and Investment Securities funded by deposits generated.
- Total Deposits increased by 43% to P67.1 billion as low-cost Demand or Currents and Savings (CASA) Deposits grew by 18% while Time Deposits also grew by 97%.
- Other Liabilities hiked by 40% to P2.1 billion.
- Total Equity hiked by 85% to P11.5 billion mainly from the additional capital infused to support business growth and net earnings during the period.

b. **Comprehensive Income – For the years ended December 31, 20202 vs. 2021**

From a Net Income of P1.1 billion, Total Comprehensive Income for the period ending December 2022 registered at P740 million after the P394 million Other Comprehensive Loss for the year.

c. **Key Performance Indicators – 2021 vs. 2020**

SELECTED FINANCIAL RATIO	2022	2021	Inc./(Dec)
Return on Ave. Equity	12.79%	6.20%	6.59%
Return on Ave. Assets	1.60%	0.80%	0.80%
Net Interest Margin	8.22%	9.74%	-1.52%
Liquidity Ratio	15.37%	22.78%	-7.41%
Debt to Equity Ratio	657.89%	780.40%	122.51%
Asset to Equity	757.89%	880.40%	122.51%
Interest Coverage	295.62%	314.64%	19.02%
Profit Margin	11.19%	5.96%	5.23%
Capital to Risk Assets	14.42%	12.38%	2.04%
Earnings Per Share	2.25	1.11	1.14

- Return on Average Common Equity grew by 6.59% to 12.79%.
- Return on Average Assets inched by 80bps to 1.60%.
- Net Interest Margin dropped by 152bps to 8.22%
- Liquidity Ratio decreased by 7.41% to 15.37% due to excess funds from deposits.
- Debt to Equity and Assets to Equity ratios both hiked by 122.51% caused by increase in both Loans and Deposits.
- Interest Rate Coverage improved by 19.02% to 295.62%.
- Profit Margin increased by 5.23% to 11.19% from higher Net Income for the period.
- Capital Adequacy Ratio, covering credit, market and operations risk increased by 2.04% to only 14.42%.
- Earnings per share increased by P1.14 to P2.25

Operational Highlights

Lending

BDONB's gross customer loans grew by 79% in 2022, rising from P37.7 billion to 67.7 billion, with growth coming from salary loans and MSME loans. Non-performing loans declined from 5.4% in 2021 to 2.8% in 2022, while the non-performing loan cover increased from 77.3% in 2021 to 104.2% in 2022.

The Bank continued the growth momentum in lending, demonstrating the Bank's commitment to be relevant and accessible to unbanked and underserved communities. Loan offices increased by 11% in 2022 to 120 locations. In addition, relevant new products were launched, additional channels and technologies were utilized and operating and credit policies and procedures adapted, all to meet the needs of clients in a fast changing economic environment.

Salary Loans

Salary loans grew 88% in 2022, and the Bank experienced its highest loan release and highest loan portfolio on record, with loan releases doubling over the prior year. The lending landscape for Salary Loans witnessed a major change when the Department of Education approved the extension of the maximum loan term from three years to five years in March 2022. This resulted in giving more flexibility and options for loan borrowers which paved way for more loan bookings. In addition, easing of lockdown restrictions further contributed to the growth. The current momentum in this market is becoming increasingly competitive with aggressive expansion by other participants. Leveraging on the extended loan term, BDONB was able to continue to capture market share through advertising of its lower interest rate offers.

In 2022, BDONB fortified marketing efforts, emphasizing its commitment to meet the customers where they are. The easing of COVID-related restrictions allowed room for the Bank's signature year-round grassroots marketing, and the salesforce's constant presence in the field easily created the lasting branding the Bank needs to become customers' top of mind product for Salary Loans.

The Bank continues its deliberate expansion into remote areas which are carefully selected with pilot caravans to determine market suitability and acceptance. In addition to in-person, personalized services, digital banking solutions are explored to augment our customer experience and allow the Bank us to reach more customers in remote areas where internet is already available. Other financial products are constantly being looked at, to cater the underserved markets, such as Pabahay Loan and relaunch of non-DepEd loans, which will enable the Bank to be a one-stop shop for all financing services needed by our current and future customers.

MSME Loans

In 2022, despite early impacts from the Omicron variant of COVID-19, BDONB grew its MSME loan portfolio by 18%, predominantly in the second half of the year, due to the recovery of the market and the resulting working capital needs.

The Bank launched two new offerings in 2022, including Kabayan Loans, which provide unsecured lending to Overseas Filipino Workers (OFWs) and their families, and micro-insurance, which provides daily compensation for hospital confinement, coverage for accidental death, and burial assistance that will allows basic risk management capability for the first time for many underserved customers. An increased focus on improving sales productivity and asset quality through targeted customer selection and stronger collection efforts were supported by enhancements to the Bank's credit policy and updated processes. Learnings from portfolio analytics, credit scoring engines, as well as process simplification, increased response speed and gave higher exposure to customers with good credit indicators.

The Bank continues to invest in making its people, products and processes smarter and its portfolio quality stronger. As field personnel continue to meet new and existing customers in their communities, BDONB remains committed to improving technological applications to aid in customer information capture, which will facilitate the loan application process and improve customer service turnaround times.

Deposit-Taking

In 2022, the Community Banking Network Group remained focused on branch expansion in strategic locations to cover more unbanked and underserved communities, opening 90 new branches, which is the highest number ever opened by the Bank in a single year. Clients exude positive reception and support in the opening of branches in their communities and appreciate the convenience, as they need not travel long distances to visit branches in other towns. Opening day of a new branch often generates Current Account/Savings Account (CASA) deposits of P10-30 million.

In addition, to help build a relevant, meaningful and more complete banking relationship for underserved communities, the Bank has outfitted its field tellers with wireless POS terminals to enable them to walk to customers' places of business so that they can conveniently make deposits and meaningfully use their bank accounts. Through the cross-selling of BDO credit cards, the Bank also provides customers with new payment capability for online settlement.

As a result, the Bank's deposit balance at the end of 2022 reached a record high of P67.1 billion. CASA Average Daily Balance (ADB) increased by 22%. The bank also maintained a CASA ratio of 57%.

BDONB will open more branches in unbanked and underserved areas in order to stimulate economic activity through the use of the Bank's deposit and lending services. BDONB remains committed to bringing banking services to those most in need, both in-person and online, putting in place a Rapid Response Team to support branches during emergency cases and calamities affecting employees so that all customers can continue to access Bank services safely and conveniently even under adverse conditions.

Support and Delivery Systems/Network

In 2022, BDONB added 90 new branches and 12 new loan offices for MSME loans and deployed 93 additional ATMs. The strategic location of Cash Agad merchants and remote ATMs further extends the accessibility to customers who are beyond the periphery of the Bank's branches, and improved ATM services are expected as ATM facilities will all be powered by BDO.

Domestic remittance volume remained steady in 2022 despite a 22.7% decrease in the number of transactions. Credit to BDONB accounts remittance service via PESONet steadily increased in value and volume reaching to 8.74 billion or 69.80% higher compared to last year.

The BDONB Facebook page provides a meaningful alternative to on-the-ground grassroots marketing. With 85% of the Bank's customers on the platform, Facebook and Messenger have quickly become significant channels for customer engagement, feedback and support as well as lead generation.

BDONB looks to launch mobile banking in late 2023 to augment its new online banking applications. System enhancement to improve the fulfillment of remittance services remains ongoing, and the Bank is still keen on providing more channels for sending remittances. Continued advancements in platforms and IT infrastructure will ensure that the communities served by BDONB will have access to an enhanced set of services.

Treasury

In 2022, BDONB focused on diversifying funding options for the Bank's growing loan portfolio at a reasonable cost.

Offering competitive rates garnered new clients and contributed to the Bank's deposit growth. Raising funds through borrowings and deposit generation amid rising interest rates resulted in higher cost of funds which consequently affected the Bank's net interest margins. As a result, the Bank's net interest margin decreased from 9.7% to 8.2%, while investment securities remained relatively stable at 8.9 billion.

For 2023, the Treasury Group will focus on time deposits to fund the Bank's loan growth and expansion, utilize its investment portfolio to generate income and continue to explore low-cost funding sources to enhance the Bank's net interest margin. The Treasury Group will also continue to support other Bank programs and initiatives, including financial inclusion and network expansion.

Leadership, Talent, and Organization

The Bank's employee headcount grew in 2022 by 12% to 4,726 employees, with most of the new hires coming from the communities in which new branches are located.

BDONB is proud to provide meaningful career opportunities and to reunite families by providing employment opportunities in where they live. In 2022, the Bank celebrated the success of one of its own who began his time with the Bank as some utility personnel at one of its branches because this allowed him return to his hometown and be with his family. After serving as a utility for five years, he decided to apply for an account officer position when he saw an interview ongoing at the branch. He was accepted, and this year was awarded SOCCSKSARGEN Area's Account Officer of the Year.

Talent acquisition continues to be challenging in the current market as the Bank's unique model of meeting the customers where they are requires selling skills that are often not available in the existing banking industry. As a result, hiring comes from outside the industry and entail training new hires to adapt to the highly regulated banking industry.

BDONB further outsourced certain back office and other support functions to its parent, BDO. Outsourcing these functions provides for improved efficiency and increased flexibility to support the high growth of the business with the benefits of scale and the technology solutions being implemented by BDO. In addition, in 2022, the Bank added a senior Business Development Officer, created a Business Technology unit to support the IT-related needs of the Bank and added more Area Heads to support network expansion.

The health and safety of the Bank's employees remained a key focus in 2022. We continued to screen employees for COVID – employees who contracted COVID were provided support thru the grant of additional sick leaves, online medical consultation, and medical kits, and employees who came into close contact with COVID patients were also provided support thru testing and quarantine. Work-from-home opportunities continued for our support teams and the Bank continued its focus on leadership, training and incentives through the online delivery of training courses. In 2022, a BOUNCE hotline was established to assist employees struggling with mental health issues.

(2) **Prospects for the Future/Plans of Operation**

The Bank is well-positioned to fulfill its vision to provide the most relevant, meaningful and complete banking relationship for underserved communities. The men and women of BDONB remain committed to making a difference in the lives of the clients and the communities they serve.

BDONB is geared up to sustain its network expansion, to develop and provide relevant products and services, continuously improve operating and credit policies and procedures and further develop customer engagement models and channels. The Bank will further explore digital innovations and technology solutions to increase productivity and reduce funding costs. Most importantly, our all teams across business units will continue to provide excellent customer service and meaningful engagement with current and future clients to further deepen the customer relationships which is the heart of everything that the Bank does.

(3) **Performance Measures and Procedures**

BDOONB has been performing well as summed by various key qualitative financial indicators such as Capital Adequacy Ratio ("CAR") and Net Interest Margin.

a. **Capital Adequacy Ratio**

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

The MB, in its Resolution No. 1607 dated October 9, 2014, approved the new minimum capitalization requirements for banks. For rural banks with head office in other areas, particularly cities up to third class municipalities outside National Capital Region and with more than 50 branches, the required minimum capitalization is P80.0 million. Based on the foregoing, the Bank has complied with the BSP capitalization requirement.

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

i. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
ii. total outstanding unsecured credit accommodations to DOSRI;
iii. deferred tax asset or liability;
iv. goodwill;
v. sinking fund for redemption of redeemable preferred shares; and,
vi. other regulatory deductions.

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

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

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(a) Common Equity Tier 1 (CET1) of at least 6.00% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.50% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.00% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.50% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

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

In October 2014 BSP issued Circular No. 856, which outlined the higher loss absorbency requirements for Domestic Systemically Important Banks (DSIB). BDO has been identified as a DSIB and was required to maintain a higher loss absorbency requirement of 2.5% to be implemented in three equal annual required increases starting January 1, 2017. Subsequent to BSP's issuance of Circular No. 1051 on the Amendment to the Framework for Dealing with Domestic Systematically Important Banks (D-SIBS) in September 2019, the rate was reduced to 2% lowering minimum CAR threshold for BDO as well as for BDO Network Bank as its subsidiary to 12%. The Bank has fully adopted Basel 3 in 2016.

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

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets with Total CAR of 14.91% and 12.38%; and Total Tier 1 CAR of 14.02% and 11.53% at December 31, 2022,and 2021, respectively.

b. **The return on average equity ("ROAE")**

ROAE is a financial ratio that measures the profitability of a company in relation to the average shareholders' equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average shareholders' equity for a specific period of time. This ratio is an adjusted version of the return of equity that measures the profitability of a company. The return on average equity, therefore, involves the denominator being computed as the summation of the equity value at the beginning and the closing of a year, divided by two.

Estimating the return on average equity can provide a more accurate picture of the company's corporate profitability, particularly in situations where the value of shareholders' equity has changed significantly during the financial year. In circumstances, where the value of shareholders' equity does not alter or alters by a small amount during a specific period, the Return on Equity and the ROAE numbers should be similar, or identical.

BDONB in its latest Audited Financial Statement has reported ROAE of 12.79% and 6.20% for years 2022 and 2011, respectively.

c. **Return on Average Assets ("ROAA")**

ROAA can be defined as an indicator used to evaluate the profitability of the assets of a firm. It is estimated by dividing the net income by average total assets. The obtained ratio is expressed as a percentage of the total average assets.

Moreover, the return on average assets is useful in measuring profits against the assets used by a company for generating profits. The ratio is an important indicator of the intensity of assets of a company. A lower ROAA ratio reflects a higher asset-intensity of the company, and vice versa. Besides, a more asset-intensive company requires a larger amount of money to continue producing revenue.

BDONB in its latest Audited Financial Statement has reported ROAA of 1.60% and 0.80%, respectively.

d. **Net Interest Margin ("NIM")**

NIM is a helpful metric in tracking the profitability of a bank's investing and lending activities over a specific course of time. It can be expressed as a performance metric that examines the success of a firm's investment decisions as contrasted to its debt situations. A negative Net Interest Margin indicates that the firm was unable to make an optimal decision, as interest expenses were higher than the amount of returns produced by investments. Thus, in calculating the Net Interest Margin, financial stability is a constant concern.

Net Interest Margin is computed by dividing the difference between the Investment Returns and Interest Expenses over or by the Average Earning Assets.

BDONB in its latest Audited Financial Statement has reported Net Interest Margin of 8.22% and 9.74% for years 2022 and 2021, respectively.

e. **Earnings per share ("EPS")**

EPS is the portion of the company's distributable profit which is allocated to each outstanding equity share (common share). It is a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Growth in EPS is an important measure of management performance because it shows how much money the company is making for its shareholders, not only due to changes in profit, but also after all the effects of issuance of new shares (this is especially important when the growth comes as a result of acquisition).

The EPS is calculated by dividing net profit after taxes and preference dividends by the number of outstanding equity shares. If the capital structure changes (i.e. the number of shares changes) during the reporting period, a weighted average number of equity shares is used to for the calculations of EPS. The diluted earnings per share (Diluted EPS) expands on basic EPS and includes the shares of all convertible securities if they were exercised. Convertible securities are convertible preferred shares, stock options (usually employee based), convertible debentures and warrants.

BDONB in its latest Audited Financial Statement has reported an increasing Earnings Per Share of P2.25 and P1.11 for years 2022 and 2021, respectively. It should be noted that ONB has no convertible shares during the period herein referred.

f. **Liquidity**

Liquidity is the ability of BDONB to meet all its maturing repayment obligations on time and to fund all of its asset growth and strategic opportunities. The purpose of liquidity analysis is to measure current liquidity position and its ability to meet future funding needs. An analysis of current liquidity position generally involves a review of key balance sheet ratios, while the analysis of the ability to meet future funding needs involves an analysis of projected cash inflows and outflows.

BDONB manages liquidity by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, BDONB seeks to maintain sufficient liquidity to take advantage of interest rate opportunity when they arise.

An analysis of maturity groupings of financial resources and financial liabilities items as at December 31, 2022 and 2021 shows that BDONB has negative short-term Total Liquidity Gap of P12.491B and P6.842B, respectively.

Furthermore, in its latest Audited Financial Statement, BDONB has reported a Net Income of P383 million and P121 million for the period ending December 2021 and 2020, respectively. There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in BDONB's liquidity increasing or decreasing in any material way. BDONB has no or does not anticipate any cash flow or liquidity problems within the next twelve (12) months. It has not been in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. BDONB has not been in default or breach of any significant amount of its trade payables.

BDONB's primary source of funds is accepting deposits from retail and corporate depositors. Substantial amount of BDONB's excess funds are invested to the accredited Commercial Banks either in the form of short term or long term investments. Limits on investments are clearly defined in BDONB' Investment Manual.

BDONB may also source its funds from the readily available stand-by credit lines with Counterpart Banks.

Disposal of few acquired assets is also contributory on the Bank's fund.

Moreover, BDONB does not anticipate any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation. It has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period. It also has no material commitments for capital expenditures.

The Bank does not anticipate any event that will have material unfavorable impact on net sales or revenues or income from its continuing operations in the next twelve (12) months. It also has no significant elements of income or loss that did not arise from its continuing operations.

g. **Financial Statements**

As a bank, BDONB's material Balance Sheet items include Loans, Deposit, Investments and Property Plant and Equipment. On the other hand, material Income Statement items is consist of Interest Income on Loans, Interest Income on Investments, Service Charges, Fees and Commissions, Interest Expense on Deposits, Interest Expense on Borrowings, Compensation and Employee Benefits, Occupancy and Equipment Related Expenses Taxes and licenses. Nevertheless, the most significant Balance Sheet drivers of BDONB are its Loans and Deposits. Movements from these items could materially affect other Balance Sheet and Income Statement items.

Other Balance Sheet and Income Statement items are deemed immaterial in relation and on the basis of material factors cited above. Any changes in these immaterial items could only be an offshoot of a material item or combination of other material Balance Sheet and/or Income Statement items.

In 2011, BDONB hit its optimum year-on-year growth (71.99%) in loan Portfolio when it implemented significant change in its Salary Loans parameters i.e. reduction of interest and implementation of diminishing amortization. As a result of these change in parameter, significant growth in Loans continued to in 2013 and 2014 with year-on-year growths of 24.27% and 15.56%, respectively. However, due to stiffer competition, the Loans slightly fell by 1% 2015. Although the growth recovered at 5% in 2016, it again dipped by 2% in 2017 and 9% in 2018 mainly because of the new regulations regarding the Department of Education's (DepEd's) Auto Payroll Deduction Scheme, which stalled the DepEd Salary Loan Program for public school teachers from November 2017 through the first half of 2018. Thus, BDONB has realigned the program to be less vulnerable to political disruption, to be more competitive, improve credit performance and increase market responsiveness. In 2018, the bank implemented the nationwide rollout of a loan program tailored to micro, small, and medium enterprises (MSME) which is responsive to the call by Bangko Sentral ng Pilipinas (BSP) for greater financial inclusion. The bank was able to fully recover with 24% growth in its Salary Loans portfolio while its MSME loan portfolio and coverage doubled to P2B and to over 200 markets nationwide in 2019.

Amidst the Pandemic, in 2020, the bank was able to grow it Salary Loans portfolio by 32% while its MSME loan portfolio by 50% funded by 31% growth in Deposits. Furthermore, the bank was able to sustain Salary Loans growth at 21% and MSME at 35%, funded by 41% growth in Deposits.

In 2021, the Bank experienced another record-breaking year, as we registered the highest annual MSME loan booking, and the highest number of new branch openings in a single year, with 49 new branches. Gross customer loans increased 20% and total assets increased 34%. Due to the Bank's continued accessibility and reliability, total deposits registered a 41% increase, while current account/savings account (CASA) levels grew 16%. BDONB's net income increased 217%. Income from interest-generating activities increased 33% and non-interest income grew 46%. Gross operating income grew by 37%, while operating expenses increased 31%.

In 2022, the Bank experienced another record-breaking year in new branch openings with 90 new branches, a 37% increase over 2021's previous record. Salary loan growth was at its highest rate in 2022 as the change in allowable maximum tenor of salary loans to Department of Education employees was increased from three to five years, and, as the economy gaining improvement in the second half of 2022, loan demand among micro, small and medium enterprises (MSMEs) increased. That said, the sharp rise in interest rates have increased funding costs and increased mark-to market losses, applying pressure on retained earnings.

Gross customer loans increased by 79% and total assets increased by 59%. Due to the Bank's continued accessibility and reliability, total deposits registered a 43% increase, while current account/savings account (CASA) levels grew 18%. BDONB's net income increased 196%.

Income from interest-generating activities increased 30% and non-interest income 88%. Gross operating income grew by 50%, while operating expenses increased 26%.

In the ordinary course of business, the Bank has loan and deposit transactions with the Parent Bank, bank under common ownership and it's DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of Bank's directors, officers and stockholders of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investment in the bank.

Likewise, BDONB grants loan to regular borrowers and also its affiliates. The bank has no DOSRI loans both in year 2022 and 2021.

BDONB has no or does not anticipate any seasonal aspects that had a material effect on the financial condition or results of operations of BDONB.

(4) **Material Changes**

(a) Any Known Trends, Events or Uncertainties (material impact on Liquidity)

Trends, events or uncertainties, which can have a material impact on liquidity, are explained under item 3 (f) above.

(b) Internal and External Sources of Liquidity

The internal and external sources of liquidity are herein discussed under item 3 (f) above.

(c) Any Material Commitments for Capital Expenditure and Expected Funds

None.

(d) Any Known Trends, Events or Uncertainties (material impact on sales)

Trends, events or uncertainties, which can have a material impact on sales, are explained under item 3 (f) above.

(e) Causes for any Material Changes from Period to Period of Financial Statements

The causes for any material changes from 2020-2021 are explained in item 3 (f) above.

(f) Seasonal Aspects that has material Effect on the Financial Statements

None.

IV. DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS OF THE BANK

(1) Business Development

Form and Year of Organization

BDO Network Bank, Inc. ("BDONB" or the "Bank") was organized as a result of the consolidation of two rural banks, namely, One Network Rural Bank, Inc. and Rural Bank of New Corella (Davao del Norte), Inc (RBCI). The Bank was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. The Bank started its commercial operations on September 1, 2011.

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity.

On July 20, 2015, BDO Unibank, Inc. (BDO or the Parent Bank), with the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), successfully acquired 99.59% of the Bank's outstanding capital stock making the Bank a member of the BDO Group. As of December 31, 2020 and 2019, BDO is the beneficial owner of 87.76% and 86.88%, respectively, of the Bank's total issued and outstanding capital.

On September 29, 2018, the Parent Bank entered into an agreement with Osmanthus Investment Holdings, Pte, Ltd. (Singapore) whereby the latter will acquire 15.00% ownership interest in the Bank. On
May 16, 2019, the latter initially acquired 10.00% ownership interest in the Bank.

On February 4, 2019, the Bank entered into an asset sale or purchase agreement with Rural Bank of Pandi (Bulacan), Inc. (RBPI) wherein the Bank purchased the recorded gross loan receivables, and assume the recorded deposit liabilities of RBPI. The purchase was completed on October 31, 2019 (see Note 23).

On July 31, 2019, the SEC approved the Bank's application to change its corporate name from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others as promulgated by the BSP.

The Bank is subject to the provisions of the General Banking Law of 2000 or Republic Act (RA) No. 8791. The registered head office of the Bank is located at BDONB Center, Km.9, Sasa, Davao City. The Bank continues to maintain the widest rural banking network in the country today with its 333 branches, and 120 loan offices as of December 31, 2022.

The Bank offers a complete array of products and services. It offers Deposit products (e.g., Savings, Checking Account, Time Deposit, Auto-Transfer Account, Young Pera Savers, ATM Deposit and Kabayan Savings Account), has remained tolerant to micro deposits given the affordable opening requirements, and has also grown to include big banking financial product packages. The Bank likewise offers Loan Products which include Salary Loans and MSME Loans, for personal consumption as well as financing packages that nurture small businesses in the countryside. Other services include convenient, quick and affordable collection and payment services, bringing modern value-added services closer to Bank's clientele, big and small.

(2) **Directors and Executive Officers**

(a) The incumbent directors and executive officers of BDONB are as follows:

Nestor V. Tan
Chairman
Non-Executive Director
Filipino, 65 years old

Nestor V. Tan is the Chairman and Director of BDONB. He was first elected as Director of BDONB on 18 August 2015. He is the President and Chief Executive Officer of BDO Unibank, Inc., and concurrently Chairman of BDO Strategic Holdings, Inc. He also holds the following positions in the BDO Group: Chairmanship of BDO Strategic Holdings, Inc. and BDO Network Bank, Inc.; Vice chairmanships and/or directorships in BDO Capital & Investment Corporation, BDO Finance Corporation, BDO Life Assurance Company, Inc., BDO Private Bank, Inc., and SM Keppel Land, Inc., and, Trusteeship of BDO Foundation, Inc.

In addition, he is currently the Chairman of the De La Salle University Board of Trustees, Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks, and; Chairman of Mastercard Asia Pacific Advisory Board. He is the past president, and current Director of the Bankers Association of the Philippines.

Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment-banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank in Pittsburgh, PA; Bankers Trust Company in New York, NY; and the Barclays Group in New York and London. He holds a bachelor's degree in Commerce from De La Salle University and an MBA from the Wharton School, University of Pennsylvania.

Jesus Antonio S. Itchon
Vice Chairman and President
Executive Director
Filipino, 62 years old
Jesus Antonio S. Itchon is the President and Vice Chairman of BDONB and was elected Director of BDONB in 15 September 2017. Prior to joining BDONB, he served as Executive Vice President of Property Company of Friends, Inc., a low cost residential and estate developer, and as Independent Director of Paymaya Phils., Inc., subsidiary of Smart Communications, Inc. He has more than 30 years of experience in banking and finance, holding key positions such as Managing Director of Citibank N.A. and President of Citibank Savings, Inc. He holds a bachelor's degree in Economics from De La Salle University and finished his MBA at the Johnson Graduate School of Management, Cornell University.

Jovasky Wei Shen Pang
Non- Executive Director
Singaporean, 46 years old

Jovasky Wei Shen Pang is a Director of BDONB. He is likewise the Director and Chief Executive Officer of Archipelago Capital Partners Pte Ltd., a Singapore based fund that invests in small to mid-market companies in Southeast Asia, and a Director of Archipelago Asia Focus Investment VCC. Prior to Archipelago, Mr. Pang spent over a decade at Temasek and Fullerton Financial Holdings (FFH). As the Global Head of SME and Consumer Banking at FFH, the financial services investment arm of Temasek Holdings, he was responsible for FFH's investments into financial institutions and the strategy and management of these companies. In the initial years at Temasek, he was instrumental in the turnaround of Bank Danamon in Indonesia and building the microfinance and SME banking business models which were subsequently replicated regionally in other portfolio investments. He also served for six years as the CEO of BOC Fullerton Community Bank and built it up to become the largest village bank network in China. BOC Fullerton Community Bank had won numerous national awards for excellence in service and innovation, and Mr. Pang was named Banking CEO of the Year (small bank category by the Economic Observer).

Mr. Pang started his career at a global consulting firm, McKinsey & Company. He worked extensively with clients across many markets (e.g. Korea, China, Australia, Malaysia, Taiwan, etc.) and was one of the founders of McKinsey's Financial Institution Practice in South-east Asia. Mr. Pang holds a Bachelor of Arts (Hons) and a Master of Arts in Philosophy, Politics and Economics from Oxford University in the United Kingdom.

Jaime C. Yu
Non-Executive Director

Filipino, 64 years old

Jaime C. Yu is a Director of BDONB since August 18, 2015 and a Senior Executive Vice President of BDO Unibank, Inc. He is also a Director of BDO Life Assurance Company, Inc. and BDO Insurance Brokers, Inc. He holds a Bachelor of Arts degree in Economics from De La Salle University and is a MBA graduate from the Ateneo de Manila University. He has extensive experience in commercial, corporate, and investment banking from the International Corporate Bank and Union Bank of the Philippines, where he held various positions up to his appointment as First Vice President and Region Head for the Manila- Pasay area. He joined BDO in December 1997 and is currently the Group Head of Branch Banking of BDO where he manages the entire branch network.

Rolando C. Tanchanco
Non-Executive Director
Filipino, 60 years old

Rolando C. Tanchanco is Senior Executive Vice President of BDO Universal Bank and Head of its Consumer Banking Group. His responsibilities cover all retail lending businesses (Home Mortgages, Auto Financing, Small Business Loans, Credit Cards and Personal Loans), Payment Channels, and Digital Banking. He currently sits on the board of BDO Network Bank Inc., BDO Insurance Brokers Inc. and TransUnion Phils Inc. Mr. Tanchanco is a member of Visa Asia Pacific Client and Risk Councils, American Express Partner Advisory Council, and UnionPay SEA Regional Council.

Prior to joining BDO, Mr. Tanchanco was president of AIG Savings Bank and Managing Director of AIG Credit Card Company. He has extensive banking experience having worked in several multinational organizations like Citibank, HSBC and AIG. He holds a Bachelor's degree in Business Economics, cum laude from the University of the Philippines and a Master's degree from the Asian Institute of Management.

Jose S. Tanjuatco
Lead Independent Director
Filipino, 71 years old

Jose S. Tanjuatco is a member of the Board of Directors, of BDO Network Bank, Inc. His appointment to the BDONB Board, as the Lead Independent Director, commenced last August 28, 2020. He is also an Independent Director of BDO Capital & Investment Corporation, BDO Securities Corporation, and BDO Private Bank, Inc. He holds a Bachelor of Arts degree, major in History & Political Science and a Bachelor of Science degree, major in Business Administration from De La Salle College (now De La Salle University). He obtained his Masters in Business Management degree from the Asian Institute of Management. His work experience included stints with PCIBank, PLDT, Equitable Bank, Philippine Airlines, Bank of Commerce, Macroasia Corporation and PAGCOR. He had also served as a member of the Board of Trustees of De La Salle University and as Chairman of the Board of Trustees of La Salle College Antipolo.

Evelyn Cristina Ang Cam
Independent Director
Filipino, 42 years old

Evelyn Cristina Ang Cam, CFA, is an Independent Director of BDONB since August 28, 2020. She is the Managing Director and Chief of Operations of Cam & Company, Inc. since 2015, a family owned and Davao-based corporation engaged in Agribusiness and Commercial Real Estate. Moreover, she holds ownership stakes in the following privately held companies, namely: 1.) Cam Marketing, Inc., a Davao-based corporation engaged in Mindanao distribution of veterinary and animal health products; 2.) Five Jewels Corporation, a Davao-based corporation engaged in the distribution of United Laboratories Products and B Meg Animal Feeds; 3.) South Sea Designs, Inc., a Davao-based corporation engaged in real estate and distribution of B Meg Animal Feeds for large farms; 5.) Phil Agro Industrial Corporation, a Bukidnon-based corporation engaged in the manufacture of cassava starch, and which also provides financing and technical assistance to cassava farmers; and 6.) FJC Farm, Inc., a Bukidnon-based corporation engaged in hog raising.

Ms. Cam holds a Bachelor of Arts in Management Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Tuck School of Business at Dartmouth College. She successfully passed Level 3 of the CFA (Chartered Financial Analyst) exam in 2010 and earned her charter thereafter. Ms. Cam is a current member of the CFA Philippine Society as well as the Hog Farmers Association of Davao City.

Ma. Leonora V. De Jesus
Independent Director
Filipino, 72 years old

Ma. Leonora V. De Jesus was elected as Independent Director of BDONB on May 19, 2018. She is presently the Chairperson of the Bank's Board Audit Committee, and a member of the Corporate Governance Committee, and Related Party Transactions Committee. She is also an Independent Director of STI Education Systems Holdings, Inc. Ms. De Jesus also serves as Director of Risks, Opportunities Assessment and Management (ROAM), Inc. In addition, she is an accredited SEC trainor on corporate governance. In the past, Ms. De Jesus was an Independent Director of Dominion Holdings, Inc (formerly BDO Leasing and Finance, Inc.), Equitable Savings Bank, PCI Capital Corporation, and BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and a Director of SM Development Corporation. She was formerly the University President of the Pamantasan ng Lungsod ng Maynila and was a professorial lecturer at the University of the Philippines, Diliman, and at the De La Salle Graduate School of Business and Governance. She attended a training on Portfolio Management at the New York Institute of Finance, and a Housing Finance course at the Wharton School of Business. She was also a member of the Board of Governors of the Philippine National Red Cross. Ms. De Jesus was a trustee of the Government Service Insurance System (GSIS) from 1998 until 2004, and was a member of the cabinet of Presidents Corazon C. Aquino, Fidel V. Ramos and Joseph E. Estrada. She holds bachelor's, master's and doctorate degrees in Psychology from the University of the Philippines.

Geneva T. Gloria
Non-Executive Director
Filipino, 58 years old

Geneva T. Gloria has been with BDO Unibank for more than **20** years and has over thirty (30) years of experience in the banking industry. She is the Senior Vice President and Head of BDO Remittance and was also elected as a Director of BDO Network Bank on January 4, 2020. Ms. Gloria is also the concurrent director of BDO Remit offices located in Hong Kong, Macau, Japan, USA, Canada and the UK. Having acquired more than 25 years in the remittance industry, her expertise spans from business development, local and foreign remittance operations, project management to marketing. Ms. Gloria has earned the reputation of having a very deep understanding of the overseas Filipino market for she was once an overseas worker herself. BDO Unibank has been a consistent recipient of the BSP's 'Top Commercial Bank in Generating Remittances from overseas Filipinos' award beginning 2008 to 2010 and again, from 2013 to 2019. BDO Unibank, through Ms. Gloria, has been supporting the projects of the government for the overseas Filipino market particularly – financial inclusion. In 2014, Ms. Gloria and her team launched a grassroots marketing campaign in various provinces across the country. The campaign has evolved and went on to dig deeper into the overseas Filipino market and the underserved clients. Ms. Gloria holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

Edwin Romualdo G. Reyes
Non-Executive Director
Filipino, 64 years old

Edwin Romualdo G. Reyes is currently CFO and Treasurer of MapleTree Holdings, Inc., a family-owned corporation. Mr. Reyes previously served as an Executive Vice President of BDO Unibank, Inc. and Group Head for the Transaction Banking Group from June 2015 to September 2022, and was retained as a Consultant for the remainder of 2022 upon retirement. Reyes has more than thirty (30) years of experience in the banking industry. He was previously the Managing Director and Global Head of Depositary Receipts at Deutsche Bank Trust Company Americas, New York, USA (Deutsche Bank) from years 2006 to 2014. Mr. Reyes also served as the Director and Global Head of Strategic Initiatives and Channel partners from years 2001 to 2006, and the Director & Global Head of Intermediaries, Corporate Trust & Agency Services from years 1999 to 2001. Prior to that, he was the Vice President of Capital Markets Trust Services at IBJ Whitehall Financial Services, New York, USA from years 1998 to 1999. Furthermore, Mr. Reyes also serves on the board of BDO Network Bank, Inc. (BDONB), as non-Executive Director. He holds a Master's Degree in Business Administration, major in Finance/Money and Financial Markets from Columbia University, Graduate School of Business in New York, USA. Mr. Reyes graduated cum laude from the University of the Philippines, with a degree of Bachelor of Science in Industrial Engineering and Operations Research.

Joseph Jason M. Natividad
Corporate Secretary
Filipino, 50 years old

Joseph Jason M. Natividad is the Corporate Secretary of BDO Network Bank, Inc. since January 4, 2020. He concurrently holds the position of Corporate Secretary of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.), the DSV/Agility Group of Companies in the Philippines, and serves as a member of the Board of Directors and Corporate Secretary of Gaia South, Inc. He is also the Assistant Corporate Secretary of BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with BDO Unibank, Inc., BDO Rental, Inc., and BDO Securities Corporation. Atty. Natividad is currently a partner at the Factoran and Natividad Law Offices. He has been in law practice for more than 20 years, mainly in the fields of corporate law and environmental law. He has a Bachelor's Degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.

Ma. Cecilia S. Santos
Assistant Corporate Secretary
Filipino, 57 years old

Ma. Cecilia S. Santos is the Assistant Corporate Secretary of BDONB since September 26, 2015. She is concurrently the First Vice President and Alternate Corporate Information Officer of BDO Unibank, Inc. She is the Corporate Secretary of BDO Finance Corporation, BDO Foundation, Inc., BDO Strategic Holdings, Inc., Ivory Homes, Inc., Averon Holdings Corporation, BDO Rental, Inc., Equimark-NFC Development Corporation, and Nashville Holdings, Inc. Further, she is also the Assistant Corporate Secretary of BDO Private Bank, Inc., and the Assistant Corporate Secretary as well as Alternate Corporate Information Officer of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.). She was formerly the Corporate Secretary of BDO Nomura Securities, Inc., Armstrong Securities, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Management Consultants, Inc., PCI Travel Corporation, The Executive Banclounge, Inc., and The Sign of the Anvil, Inc.

In addition, she is currently assigned at BDO Unibank Legal Services and Corporate Secretary Group as Head of two (2) Teams, to wit: IP/Legal Support Team providing legal assistance to BDO Unibank's Support Groups and Subsidiaries and in managing the BDO Group's Intellectual Property (BDO and BDO-related trademarks and domain names), and Corporate Secretariat Team providing corporate secretariat services to BDO Unibank and its Subsidiaries. In 2017, 2018, 2019, and 2020, she was featured in the World Trademark Review 300 as among the World's Top 300 Leading Trademark Professionals. She holds a Bachelor of Arts degree major in Economics from University of Sto. Tomas and finished law at San Beda College of Law (Dean's Lister).

(b) Senior Executive Officers

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of BDONB. They are responsible for the implementation of the policies set by the Board. The following is a list of BDONB's key officers, and their business experiences during the past five (5) years:

Jaime A. Talingdan, 55, Filipino, holds the position of Senior Vice President and Head of the Community Banking Network Group of BDONB. Prior to joining BDONB, he was an Area Head of Branch Banking Group of BDO Unibank with a rank of First Vice President. He started his career in the same institution in 1988 with 34 years of banking experience. He was a Branch Head for 16 years and rose from Assistant Manager to Senior Assistant Vice President before his previous assignment as Area Head. He finished his bachelor's degree in Commerce major in Accounting from St. Mary's University, Bayombong, Nueva Vizcaya and Master of Business Administration degree from De La Salle University, Manila.

Karen L. Cua, 44, Filipino, is the Head of Micro, Small & Medium Enterprise Business (MSME) Business Unit of BDONB with a rank of Senior Vice President. She was Consumer Banking Head, Marketing Head, and Project Management Office Head at BOC Fullerton Community Bank in China, a JV between Bank of China and Temasek. Before that, she was with McKinsey & Co. where she primarily served financial service clients in Asia Pacific. She holds a Masters in Business Administration degree from Wharton Business School and a BS Management Engineering degree from Ateneo de Manila University.

Alberto O. Quiogue, 54, Filipino, is the Group Head of Salary Loans and joined BDONB in April 2016 with a rank of Senior Vice President. He holds a Bachelor of Science degree in Business with a minor in Political Science from the University of Nevada. He started his career as a Management Associate for Citibank US before moving back to the Philippines in 1996. He has broad experience in various Retail Products having worked for local and international banks in the Philippines and abroad where he held various positions in sales, credit risk, operations and project management.

Rogelio C. Basco, 68, Filipino, is the Business Development Officer of BDONB with a rank of First Vice President. He was a former Head of Business Systems Division- Process Improvement Department 3 of BDO Unibank Inc., Head of Systems and Methods Department 6 under Business Systems Division of Equitable PCI Bank Inc., Section Officer of Information Resource Management (IRM) of Philippine Commercial International Bank (PCIBank), Accounting Clerk of Insular Bank of Asia and America (IBAA).

Milott B. Requillo, CPA, 43, Filipino, is Senior Assistant Vice President of BDONB. She is the Chief Compliance Officer (CCO) and concurrently the Head for Legal and Compliance Department who administratively oversees both the Legal Services Unit and the Corporate Secretary's Office. She is also the Corporate Governance Officer of BDONB, and a Director of the Rural Bankers Association of the Philippines (RBAP) from 2018 to 2021 and Credit Information Corporation (CIC) since 2021 to 2022, representing both the BDONB and RBAP, respectively. Prior to her current position as CCO, she was previously an Internal Auditor of One Network Bank, Inc. for seven (7) years. All in all, she has been with BDONB for nineteen years since 2004. She earned her Bachelor's degree in Accounting from the University of the Immaculate Conception (UIC) in 2000 and thereafter obtained her license as a Certified Public Accountant (CPA), and earned her Juris Doctor Degree at St. Thomas College of Law in 2019.

Emily G. Gamir, 58, Filipino, is the head of the Operations Group of BDONB with a rank of Assistant Vice-President. She started her banking career when she joined One Network Bank in 1997. In her 24 years in BDONB, she gained experience in branch operations and management, product development and management, account management, business development, policy development and marketing communications. She holds a bachelor's degree in Business Administration from the University of the Philippines.

Minda A. Lim, 62, Filipino, is the Treasury Group Head of BDONB with a rank of Vice-President since May 16, 2012. She held the rank of Asst. Vice-President in Treasury Group of China Bank Corporation from 2010 to 2012, but was a senior trader from 1990-2009. She holds a bachelor's degree in Banking and Finance from the University of Mindanao.

Niezl D. Gilvero, CPA, 38, Filipino, is Assistant Vice President. She is the Head of Accounting. Prior to this, she was the Chief Finance Officer of Rizal Mircrobank, Inc. (A Thrift Bank of RCBC), and Head of Audit and Risk Group of the Enterprise Bank, Inc. Ms. Gilvero finished her Bachelor's degree in Accountancy from the Cor Jesu College in year 2005.

Market for Issuer's Common Equity and Related Stockholder Matters

(a) Market Information

There is no principal market where the Bank's shares (Common and Government Preferred "A" shares) are being traded.

(b) Holders of Securities

A. Common Shares

The number of common shareholders as of December 31, 2022 is 383. The top 20 common shareholders of the Bank as of December 31, 2022 on the basis of actual tender offer of shares standing, are as follows:

RANK	NAME OF STOCKHOLDERS (COMMON STOCKS)	NATIONALITY	NO. OF SHARES OWNED	% OF OWNERSHIP
1	BDO UNIBANK, INC.	FILIPINO	422,320,814	86.18%
2	OSMANTHUS INVESTMENT HOLDING, PTE., LTD	SINGAPOREAN	61,466,610	12.54%
3	AQUINO, DAVID S. and/or ESPERANZA and/or SARAH ANGELICA and/or DAVID ANGELO	FILIPINO	2,580,409	0.53%
4	AQUINO, DAVID S.	FILIPINO	1,151,437	0.23%
5	ULANGCA, CHRISTINA MA. LUISA D.R.	FILIPINO	803,600	0.16%
6	CO, JOHN DELA ROSA AND DIANA MALAPAS	FILIPINO	384,977	0.08%
7	LAGMAN, EDGARDO	FILIPINO	219,207	0.04%
8	LIM, GEORGE U or SHERWIN C.	FILIPINO	122,516	0.03%
9	ESPADERA, MA. DIOLIE	FILIPINO	76,612	0.02%
10	ESPADERA, REYNANTE	FILIPINO	76,593	0.02%
11	PANES, EVELYN K.	FILIPINO	67,736	0.02%
12	ABAD, FELICITA	FILIPINO	64,472	0.01%
13	CATOLICO, PRISCILA	FILIPINO	55,555	0.01%

14	SIAN, REY	FILIPINO	42,561	0.01%
15	BUENAVENTURA, AMELIA AND/OR MYCHELLE D.R. ULANGCA	FILIPINO	35,862	0.01%
16	EVANGELISTA, THADDUES	FILIPINO	32,017	0.01%
17	TOLENTINO, SULPICIO	FILIPINO	24,981	0.01%
18	TOLENTINO, FELIPE, JR.	FILIPINO	24,814	0.01%
19	PANABO JI AGRICULTURAL TRADERS (PJAT) INC.	FILIPINO	22,200	0.005%
20	PALABRICA, FRANCISCA	FILIPINO	22,116	0.005%
21	OTHERS	FILIPINO	440,111	0.09%
	TOTAL		**490,035,200**	100.000%

**The application for issuance of the Certificate Authorizing Registration to transfer the shares from various owners to BDO Unibank, Inc. in the records of the Bank is currently pending with the BIR.*

B. Government Preferred "A" Shares

Government Preferred "A" shares outstanding as of December 31, 2022 stood at 20,560 owned by only 1 shareholder, Development Bank of the Philippines.

(c) Dividends

The Bank's Board of Directors is authorized to declare dividends annually. Stock Dividend declarations require further approval of stockholders representing not less than two-thirds (2/3) of all stocks outstanding and entitled to vote. Such stockholders' approval may be given at a general or special meeting duly called for the purpose. Dividends may be declared only from surplus profits after making proper provisions for necessary reserves in accordance with applicable laws and the regulations of the BSP.

There were no dividend declaration made in 2015 as this was already the tender offer year by the BDONB shareholders and the year when BDO made its acquisition.

There was no dividend declaration made in 2020, 2021 and 2022.

(d) Recent Sales of Unregistered Securities (within 3 years)

The Corporation did not sell nor offer for sale any unregistered or exempt securities including issuance of securities constituting an exempt transaction for the last three (3) years.

Compliance with Leading Practices on Corporate Governance

(a) Evaluation System

BDONB's Manual on Corporate Governance (the "Manual") was approved by the Board of Directors on July 7, 2014 and its latest amendment/revision on March 02, 2023 in compliance with the Revised Code of Corporate Governance of the SEC and MORB of the Bangko Sentral ng Pilipinas.

The evaluation by the Bank to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer. The Compliance Officer, who holds the position of Senior Assistant Vice President and has direct reporting responsibilities to the Board, is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. Compliance by the Board of Directors and top level management with the Manual is evaluated on the basis of their compliance with the policies and procedures of the Bank specifically adopted for good corporate governance.

BDONB has substantially adopted the provisions of the Manual.

(b) Measures on Leading Practices of Good Corporate Governance

In order to aid the Board of Directors in complying with the principles of good corporate governance, the Board of Directors constituted the Board Level Committees of Corporate Governance, Audit, and Risk Management, Related Party Transactions, and the Executive. For one, the Related Party Transactions Committee was established on 30 July 2016, whose primary role is to review and evaluate proposed related party transactions prior to endorsement to the Board of Directors for approval. There is also a Management Committee which directly reports to the Board.

Each of the said Committees has adopted its own charter which is being reviewed annually and updated if necessary. The charter sets out the Committee's role, authority, duties and responsibilities, and the procedure which guides the conduct of its functions.

On a periodic basis, the Board of Directors conducts self-assessment of its performance against established criteria, for purposes of assessing its effectiveness and as a tool in its efforts to improve its structure, composition and practices and procedures. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

Pursuant to its commitment to good governance and business practice, the Bank continues to review and strengthen its policies and procedures in order to ensure that such policies and procedures are consistent with leading practices on good corporate governance, giving due consideration to developments in the area of corporate governance, which it determines to be in the best interests of the Bank and its stockholders.

(c) Any Deviation from the Manual

BDONB has substantially adopted the provisions of the Manual.

(d) Improvement of Good Governance

BDONB is now entering the era of digital transformation and looking at ways to optimize the use of the new technologies to strengthen corporate governance practices while remaining vigilant the risk of digitization to business operations. In ensuring that the Bank stays as the market leader in the Philippine financial services industry, it is focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Bank in this new era. This is essential in going forward into the future as it continues to compete and remain relevant to our various stakeholders.

Undertaking to Provide Annual Report

BDONB undertakes to provide, without charge, each stockholder a copy of BDONB's Annual Report on SEC Form 17-A upon written request to BDONB addressed to:

ATTY. JOSEPH JASON M. NATIVIDAD
Corporate Secretary
BDONB Corporate Center
Km. 9 Sasa, Davao City

At the discretion of BDONB, a charge may be made for exhibits, provided such charge is limited to reasonable expenses incurred by BDONB in furnishing such exhibits.