STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURNS

The management of Cooperative Bank of Cotabato is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, management affirms that the attached audited financial statements for the year ended December 31, 2022, and the accompanying Annual Income Tax Return are in accordance with the books and records of Cooperative Bank of Cotabato, complete and correct in all material respects.

Management likewise affirms that:

a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules have been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;
c) The Cooperative Bank of Cotabato has filed all applicable returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Maharlika Highway, Lanao, Kidapawan City, North Cotabato

JELITO G. JUGAS
Chairman, Board of Directors

ROLLY R. DELA CRUZ
President

DEFER R. VILLARUZ
Vice President for Finance

QUILAB & GARSUTA
Certified Public Accountants

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Accreditations, Expiry
BIR 16-007506-000-2022, 2022-2024
NEA 2020-12-00070, 2020-2023
7787-SEC Group B, 2020-2024
7787-BSP Group B, 2020-2024
7787-IC Group A, 2020-2024
PRC/BOA 7787, 2020-2023
CDA 119 AF, 2021-2023
MISEREOR

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY INCOME TAX RETURNS

The Board of Directors
Cooperative Bank of Cotabato
Maharlika Highway, Lanao, Kidapawan City,
North Cotabato

We have audited the financial statements of Cooperative Bank of Cotabato. as of and for the year ended December 31, 2022, on which we have rendered the attached report, dated April 17, 2023.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the Chairman of the Board, President or principal stockholders of the Bank.

.

QUILAB & GARSUTA, CPAs
By:

RICO P. QUILAB
Partner
CPA Cert. No. 46034
TIN No. 129-040-841
PRC/BOA Cert. No. 7787, 2020-2023
BIR No. 16-007506-001-2022, 2022-2024
46034-SEC Group B, 2020-2024
46034-BSP Group B, 2020-2024
46034-IC Group A, 2020-2024
PTR No. 5474075 A
January 3, 2023
Cagayan de Oro City

April 17, 2023
Cagayan de Oro City, Philippines

QUILAB & GARSUTA
Certified Public Accountants

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PRC/BOA 7787, 2020-2023
CDA 119 AF, 2021-2023
MISEREOR

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Cooperative Bank of Cotabato
Maharlika Highway, Lanao, Kidapawan City, North Cotabato

Report on the Financial Statements

Opinion
We have audited the financial statements of Cooperative Bank of Cotabato, which comprise the statement of financial position as at December 31, 2022, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes (collectively referred to as 'financial statements').

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

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

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

In preparing the financial statements, management is responsible for assessing the Cooperative 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 Cooperative Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Cooperative 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from

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

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

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

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

Other Matter
The financial statements of Cooperative Bank of Cotabato as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated March 30, 2022, on those statements, was unqualified.

Report on the Supplementary Information Required by Supervising Agencies of the Cooperative Bank

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplementary information are presented as compliance to the requirements by the corresponding supervising Government agencies in the prudential reporting of the Cooperative Bank and are not required parts of the basic financial statements. Such information is the responsibility of management. The following information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Supervising Government	*Nature of Information*	*Presented in*
CDA	Supplementary Information Required By The CDA	Note 14
BIR Revenue Regulation 15-2010	Supplementary Information on Taxes, Licenses, and Fees	Note 25
BSP Circular No.1074	Supplementary Information Required By The BSP	Appendix I

QUILAB & GARSUTA, CPAs
By:

RICO P. QUILAB
Partner
CPA Cert. No. 46034
TIN No. 129-040-841
PRC/BOA Cert. No. 7787 (7.05.2023)
BIR No. 16-007506-001-2022, 2022-2024
46034-SEC Group B, 2020-2024)
46034-BSP Group B, 2020-2024
46034-IC Group A, 2020-2024
PTR No. 5474075 A
January 3, 2023
Cagayan de Oro City

April 17, 2023
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION
Cooperative Bank of Cotabato

December 31,	2022	2021
ASSETS		
Cash and Cash items *(Note 4)*	₱751,441,133	₱579,170,317
Loans and Receivables – Net *(Note 5)*	2,246,599,499	1,829,105,691
Bank Premises, Furniture, Fixtures and Equipment – Net *(Note 6)*	144,898,474	132,809,048
Right-of-Use Assets *(Note 6)*	4,914,187	2,605,668
Investment Properties – Net *(Note 7)*	4,159,254	4,310,235
Other Assets *(Note 8)*	56,255,295	50,009,579
	₱3,208,267,842	₱2,598,010,538
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Deposit liabilities *(Note 9)*	₱1,708,044,059	₱1,451,654,590
Bills payable *(Note 10)*	612,729,040	299,709,710
Other liabilities *(Note 11)*	152,467,600	133,438,827
Lease liabilities *(Note 6)*	4,999,453	2,656,183
Total Liabilities	2,478,240,152	1,887,459,310
Members' Equity		
Share capital *(Note 13)*	77,155,159	73,105,159
Statutory reserves *(Note 14)*	154,774,000	149,278,518
Revaluation reserves *(Note 12)*	(8,881,722)	(10,833,663)
Reserve for retirement of preferred shares *(Note 13)*	3,441,000	3,441,000
Undivided surplus *(Note 14)*	503,539,253	495,560,214
Total Members' Equity	730,027,690	710,551,228
	₱3,208,267,842	₱2,598,010,538

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Cooperative Bank of Cotabato

Years Ended December 31,	2022	2021
INTEREST INCOME		
Loans and receivables *(Note 5)*	₱358,370,769	₱346,357,229
Bank deposits *(Note 4)*	881,643	987,572
Total	359,252,412	347,344,801
INTEREST EXPENSE		
Deposit liabilities *(Note 9)*	53,596,548	47,810,280
Bills payable *(Note 10)*	11,170,391	17,683,178
Lease liabilities *(Note 6)*	91,360	92,636
Total	64,858,299	65,586,094
NET INTEREST INCOME	294,394,113	281,758,707
LESS PROVISION FOR EXPECTED CREDIT LOSSES (ECL) *(Note 5)*	70,020,700	54,734,108
INTEREST INCOME AFTER PROVISON FOR ECL	224,373,413	227,024,599
SERVICE FEES AND OTHER INCOME *(Note 15)*	139,542,324	106,343,151
OPERATING EXPENSES *(Note 16)*	(325,466,662)	(270,649,693)
PROFIT BEFORE TAX	38,449,075	62,718,057
INCOME TAX EXPENSE *(Note 17)*		
Current	(5,215,223)	(2,689,836)
Deferred	3,824,318	(4,078,268)
	(1,390,905)	(6,768,104)
NET SURPLUS FOR THE YEAR	37,058,170	55,949,953
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment defined benefit obligation *(Note 12)*	2,602,588	3,354,092
Deferred Tax Income (Expense) *(Note 17)*	(650,647)	(838,523)
Other Comprehensive Income (Loss) - net of tax	1,951,941	2,515,569
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱39,010,111	₱58,465,522

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY
Cooperative Bank of Cotabato

December 31,	2022	2021
SHARE CAPITAL *(Note 13)*		
Ordinary (Common) Shares – ₱1,000 par value		
Opening balances	₱69,664,159	₱65,198,159
Additional shares issued during the year	4,050,000	4,466,000
Closing balances	73,714,159	69,664,159
Preferred Shares	3,441,000	3,441,000
Total Share Capital	77,155,159	73,105,159
STATUTORY RESERVES *(Note 14)*		
Opening balances	149,278,518	143,724,224
Allocation from net profit	9,612,268	13,987,487
Charges during the year	(4,116,786)	(8,433,193)
Closing Balances	154,774,000	149,278,518
RESERVE FOR RETIREMENT OF PREFERRED SHARES *(Note 13)*	3,441,000	3,441,000
REVALUATION RESERVES *(Note 12)*		
Opening balances	(10,833,663)	(13,349,232)
Other comprehensive income (loss) for the year	1,951,941	2,515,569
Closing balances	(8,881,722)	(10,833,663)
UNDIVIDED SURPLUS		
Opening balances	495,560,214	456,395,246
Allocation from net profit *(Note 14)*	25,523,448	39,164,968
Cash dividends	(16,528,883)	–
Patronage refund	(46,235)	–
Charges during the year	(969,291)	–
Closing balances	503,539,253	495,560,214
	₱730,027,690	₱710,551,228

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Cooperative Bank of Cotabato

Years Ended December 31,	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	₱38,449,075	₱62,718,057
Add (deduct) adjustments for:		
Depreciation and amortization *(Notes 6 and 7)*	16,843,516	14,219,416
Depreciation on right-of-use assets *(Notes 6)*	1,921,390	1,497,427
Provision for expected credit losses *(Note 5)*	70,020,700	54,734,108
Provision for retirement benefit expense *(Note 12)*	3,824,760	3,784,188
Operating surplus before changes in working capital	131,059,441	136,953,196
Add (deduct) changes in working capital excluding cash and cash equivalents:		
Increase in loans and receivables *(Note 5)*	(480,628,931)	(267,210,725)
(Increase) decrease in other assets *(Note 8)*	(5,245,716)	704,904
Increase in deposit liabilities *(Note 9)*	256,389,469	123,198,731
Increase in other liabilities *(Note 11)*	8,313,528	6,007,404
Income taxes paid *(Note 17)*	(2,737,911)	(2,592,955)
Net cash generated from (used for) operations	(92,850,120)	(2,939,445)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to bank premises, furniture, fixtures and equipment *(Note 6)*	(38,872,632)	(37,553,981)
Increase in investment in financial asset at FVOCI *(Note 8)*	(1,000,000)	(3,502)
Disposal of bank premises, furniture, fixtures and equipment *(Note 6)*	10,166,455	146,778
Net Cash used for Investing Activities	(29,706,177)	(37,410,705)
CASH FLOWS FOR FINANCING ACTIVITIES		
Repayment of bills payable *(Note 10)*	(207,733,294)	(376,978,287)
Proceeds from bills payable availed of during the year *(Note 10)*	520,752,624	287,605,921
Cash dividends paid *(Note 11)*	(5,940,259)	(11,079,627)
Disbursements from statutory funds *(Note 14)*	(4,116,786)	(8,433,193)
Additional issuance of shares *(Note 13)*	4,050,000	4,466,000
Payment of interest and patronage refund	(18,028)	–
Contribution to plan assets *(Note 12)*	(10,189,144)	(11,574,783)
Repayment of lease liabilities *(Note 6)*	(1,978,000)	(1,572,000)
Net Cash Provided (Used) for Financing Activities	294,827,113	(117,565,969)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,270,816	(157,916,119)
OPENING CASH AND CASH EQUIVALENTS	579,170,317	737,086,436
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	₱751,441,133	₱579,170,317

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Cooperative Bank of Cotabato
As of and for the Years Ended December 31, 2022 and 2021

Note 1
General Information

Organization
The Cooperative Bank of Cotabato (Cooperative Bank) was organized and registered with the Cooperative Development Authority (CDA) on April 18, 1979, under Registration No. F-127CB-02-DVO in accordance with the provision of Republic Act (R.A.) No. 6938, otherwise known as the Cooperative Code of the Philippines. The Cooperative Bank was re-registered with the CDA under Registration No. 9520-12005732 on January 7, 2010 to carry on the business of a rural bank in accordance with the provisions of R.A. No. 7353 (Rural Banks Act of 1992) and R.A. No. 9520 (Philippine Cooperative Code of 2008).

The Cooperative Bank granted Certificate of Authority by the Bangko Sentral Ng Pilipinas (BSP) under the provisions of Republic Act No. 720, as amended. The Cooperative Bank officially started operations by April 18, 1979.

As of December 31, 2022, the Cooperative Bank has a total of 124 shareholders (active and inactive) on record.

Addresses of Head Office and Branches
The registered office address of the Cooperative Bank is at Maharlika Highway, Lanao, Kidapawan City, North Cotabato. The Bank operates within the Provinces of North Cotabato, Sultan Kudarat, South Cotabato, Davao Del Sur, and Bukidnon. It has thirteen (13) branches located in the City of Kidapawan and the Municipalities of M'lang, Kabacan, Antipas, Midsayap and Pigcawayan of North Cotabato and in the Municipalities of Isulan and Lebak of Sultan Kudarat, Koronadal and Polomolok of South Cotabato, Bansalan of Davao del Sur and Don Carlos of Bukidnon and one Micro Banking Office in Surallah of Sultan Kudarat.

Tax Exemption
The Cooperative Bank serves both members and non-members. Since the Bank's accumulated reserves and undivided net savings exceeds the ₱10 million threshold for tax exemption, the Cooperative Bank's transactions with non-members are subject to the following taxes:

1) Business transactions with members shall be exempt from all national internal revenue taxes;

2) Business transactions with non-members shall be taxed in full rate as follows:

   (a) Income tax on the amount allocated for interest on share capital of non-members;
   (b) Value-Added Tax (VAT) under Section 109 pars. (r), (s), (t) and (u) of the Tax Code of 1997; except those falling under pars. (L), (M) and (N), as amended by R.A. 9337;
   (c) Limited or full deductibility of donations to duly accredited charitable, research and educational institutions, and reinvestment to socio-economic projects within the area of operation of the cooperative; and
   (d) Exemption from all taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system.

Note 2
Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the following pages.

Statements of Compliance
The financial statements of the Cooperative Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC. PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

Because the Cooperative Bank is a supervised entity by the Bangko Sentral ng Pilipinas (BSP), it also abides by the prudential regulations of BSP particularly those that are set forth in the Manual of Regulations for Banks (MORB), and all applicable BSP Circulars and accounting requirements. These regulations and requirements are substantially compliant with PFRSs.

In its Circular No. 494 dated September 20, 2005, BSP emphasized that, as a general rule, BSFIs shall comply in all respect with the provisions of PFRSs in preparing both their audited financial statements and the financial statements for prudential reporting. In its Circular No. 915 dated 05 July 2016 BSP clarified that deviations between local and international accounting standards only apply to the preparation of prudential reports to the BSP. The accounting treatment for prudential reporting aims to ensure that the financial statements provide a suitable basis for measuring risks and ratios of BSFIs.

The preparation of the Cooperative Bank's financial statements took into considerations deviations from PFRSs that are allowed by Bangko Sentral ng Pilipinas (BSP) for prudential reporting purposes but are incorporated in these financial reporting as explained in the following paragraphs. The Cooperative Bank prepares only a single set of audited financial statements for general use and for submission to BSP.

- *Consolidation of Financial Statements*
  Under PAS/IAS 27, all bank/quasi-bank subsidiaries, regardless of type, are consolidated on a line-by-line basis. For prudential reporting purposes, however, financial allied subsidiaries, except insurance companies, are consolidated with the financial statements of the parent bank on a line-by-line basis. Non-financial allied subsidiaries and insurance subsidiaries, on the other hand, are accounted for using the equity method. This requirement has no impact on the Cooperative Bank as it has no subsidiaries.

- *Provisioning Requirement*
  In preparing general purpose audited financial statements, BSFIs adopt the provisions of PFRSs in booking provisions for credit losses. For prudential reporting purposes, however, BSFIs are required to adopt the expected credit loss model in measuring credit impairment in accordance with the provisions of PFRS 9. BSFIs are also required to set up a general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a 1 percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Allowance for credit losses for Stages 1, 2 and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE) account. The Cooperative Bank generally follows the foregoing provisioning requirements for loans and adopted the provisions of PFRSs for the provisioning requirements of other financial instruments.

- *Deemed Cost of ROPA in Settlement of Loans*
  In computing the deemed cost of real and other properties acquired (ROPA), BSFIs are required to value the property at initial recognition based on the carrying amount of the asset given up in the exchange, i.e., carrying amount of the loan, instead of the fair value of the real and other property acquired. The Cooperative Bank values its ROPA in accordance with this requirement; however, it has subjected the ROPA to impairment testing and disclosed their fair market values at the reporting date.

- *Accrual of Interest Income on Non-Performing Loans*
  Interest income is allowed to be recognized on non-performing exposures for the purposes of preparing the general purpose financial statements financial statements. For prudential reporting purposes, however, BSFIs are not allowed to recognize interest income on non-performing exposures, except when payment is received. The Cooperative Bank does not accrue interest income on non-performing loans as dictated by prudence and conservatism.

The Cooperative Bank is also supervised by CDA. It has generally complied with the requirements of the Cooperative Code of the Philippines particularly in the aspects of its members' equity. In the distribution of net surplus at the end of the year, however, the Cooperative Bank follows the rules and regulations of Section 124 of the MORB which prohibits banks to declare dividends unless it has complied with all its requirements.

New and Amended PFRS Standards that are Effective for Current Year
The Cooperative Bank has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective. The following Standards were developed and issued by the International Accounting Standards Board (IASB), an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). The IASB was formed in 2001 to replace the International Accounting Standards Committee (IASC).

These standards were reviewed by the FSRSC which was established under the Implementing Rules and Regulations of the Philippine Accountancy Act of 2004 to assist the Board of Accountancy (BOA) in carrying out its power and function to promulgate accounting standards in the Philippines. The FSRSC's main function is to establish generally accepted accounting principles in the Philippines through its review and adoption of the Standards issued by the IASB. The FSRSC formed the PIC in August 2006 to assist the FSRSC in establishing and improving financial reporting standards in the Philippines. The role of the PIC is principally to issue implementation guidance on PFRSs which are then forwarded to the FSRSC and BOA/PRC for approval before issuance to the public as final guidance.

The Securities and Exchange Commission (SEC) has the authority to prescribe the financial reporting framework to be used by corporations in the Philippines. These general financial reporting requirements are set out in Rule 68 of the Securities Regulation Code (SRC).

The following new and amended IFRS Standards have been reviewed and/or adopted in the Philippines by the FSRSC for the BOA/PRC.

In the current year, the Cooperative Bank has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the FSRSC (as Philippine Financial Reporting Standards) that are mandatorily effective for an accounting period that begins on or after January 1, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to PFRS 3 Reference to the Conceptual Framework
The Cooperative Bank has adopted the amendments to PFRS 3 *Business Combinations* for the first time in the current year. The amendments updated PFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies PAS/IAS 37 to determine

whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The foregoing amendments were adopted by the FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Amendments to PAS/IAS 16 Property, Plant and Equipment— Proceeds before Intended Use
The Cooperative Bank has adopted the amendments to PAS/IAS 16 *Property, Plant and Equipment* for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS/IAS 2 *Inventories.*

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS/IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The foregoing amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Amendments to PAS/IAS 37 Onerous Contracts—Cost of Fulfilling a Contract
The Cooperative Bank has adopted the amendments to PAS/IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The foregoing amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

Annual Improvements to PFRS Accounting Standards 2018-2020 Cycle
The Cooperative Bank has adopted the amendments included in the *Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle* for the first time in the current year. The Annual Improvements include amendments to four standards.

- *PFRS 1 First-time Adoption of International Financial Reporting Standards*
  The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

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

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

- *PAS/IAS 41 Agriculture*
  The amendment removes the requirement in PAS/IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS/IAS 41 with the requirements of PFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

These following amendments were adopted by FSRSC on August 19, 2020 and becomes effective beginning January 1, 2022.

New and Revised IFRS Accounting Standards in Issue But Not Yet Effective
At the date of authorization of these financial statements, the Cooperative Bank has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective and is some cases had not yet been adopted by the FSRSC.

– PFRS 17 *Insurance Contracts* (including the June 2020 and December 2021 amendments to IFRS 17)

– Amendments to PFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

– Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

– *Amendments to IAS 1* and IFRS Practice Statement 2 *Disclosure of Accounting Policies Amendments to IAS 8 Definition of Accounting Estimates*

– Amendments to PAS/IAS 8 *Definition of Accounting Estimates*

– Amendments to PAS/IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The management of the Cooperative Bank does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Cooperative Bank in future periods.

IFRS 17 Insurance Contracts
IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The FSRSC adopted the amendments on December 15, 2021 and amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

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

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Cooperative Bank anticipate that the application of these amendments may have an impact on the Cooperative Bank's consolidated financial statements in future periods should such transactions arise. The FSRSC has not yet adopted the foregoing amendments.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or

The amendments to PAS/IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments. The FSRSC adopted the amendments on August 19, 2020 and becomes effective beginning January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

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

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

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to PAS/IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.

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

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

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing PAS/IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.

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

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

Following the amendments to PAS/IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS/IAS 12.

The IASB also adds an illustrative example to PAS/IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) Right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The FSRSC adopted the amendments on April 14, 2021 and becomes effective beginning January 1, 2023.

The directors of the Cooperative Bank anticipate that the application of these amendments may have an impact on the Cooperative Bank's consolidated financial statements in future periods should such transactions arise.

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial instruments that are measured at fair values at the end of the year, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Cooperative Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of PFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS/IAS 2 or value in use in PAS/IAS 36.

The financial statements are presented in Philippine peso, which is the Cooperative Bank’s functional and presentation currency, and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management’s best knowledge of current and historical facts as at reporting date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Significant Accounting Policies
The principal accounting policies adopted are set out below.

Going Concern
The Board of Directors has, at the time of approving the financial statements, a reasonable expectation that the Cooperative Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing financial statements.

Presentation of Financial Statements
The Cooperative Bank's statements of financial position are presented broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) are disclosed in Note 21. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Cooperative Bank.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Cooperative Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Cooperative Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial Instruments
Financial assets and financial liabilities are recognized in the Cooperative Bank's statement of financial position when the Cooperative Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade and other receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets
All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets
Debt instruments that meet the following conditions are measured subsequently at amortized cost: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Cooperative Bank may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Cooperative Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Cooperative Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) *Amortized Cost and Effective Interest Method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Cooperative Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to a gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

The Cooperative Bank's financial assets at amortized costs include cash and cash equivalents and loans and discounts and investments in treasury bonds.

- *Cash and Cash Equivalents*
  Cash and cash equivalents substantially consist of cash on hand and other cash items, amounts due from BSP and other banks that are known amounts of cash with maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. These are carried in the books at cost, which approximates market.

- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise with the Cooperative Bank providing money, goods and services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, sales contract receivables and all receivables from customers and other banks (due from other banks). They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(ii) *Debt Instruments Classified as at FVTOCI*
Debt instruments classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortized cost. All other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) *Equity Instruments Designated as at FVTOCI*
On initial recognition, the Cooperative Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if: (1) it has been acquired principally for the purpose of selling it in the near term; (2) on initial recognition it is part of a portfolio of identified financial instruments that the Cooperative Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive incomes and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv) *Financial Assets at FVTPL*
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI [see (i) to (iii) above] are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Cooperative Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Cooperative Bank has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (the Cooperative Bank has no hedge investments). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other services and other income' line item. Fair value is determined in the manner described in the Cooperative Bank's significant accounting policies.

Impairment of Financial Assets
The Cooperative Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Cooperative Bank always recognizes lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Cooperative Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Cooperative Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Cooperative Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant Increase in Credit Risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Cooperative Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Cooperative Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Cooperative Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Cooperative Bank's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Cooperative Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Cooperative Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Cooperative Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (1) the financial instrument has a low risk of default; (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Cooperative Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Cooperative Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of Default*

The Cooperative Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable: (1) when there is a breach of financial covenants by the debtor; or (2) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Cooperative Bank, in full (without taking into account any collateral held by the Cooperative Bank).

Irrespective of the above analysis, the Cooperative Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Cooperative Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired 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 that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-Off Policy*

The Cooperative Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Cooperative Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and Recognition of Expected Credit Losses (ECL)*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Cooperative Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Cooperative Bank in accordance with the contract and all the cash flows that the Cooperative Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16.

For a financial guarantee contract, as the Cooperative Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Cooperative Bank expects to receive from the holder, the debtor or any other party.

If the Cooperative Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Cooperative Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Cooperative Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

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 what the Cooperative 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 Cooperative 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 the event of a loan commitment, the Cooperative 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.

Derecognition of Financial Assets
The Cooperative Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Cooperative Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Cooperative Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Cooperative Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Cooperative Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Cooperative Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Modification of Loans
When the Cooperative Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Cooperative 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 Cooperative 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 Cooperative 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 as gain or loss on derecognition of financial assets in profit or loss.

- If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Cooperative 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).

Derecognition of Financial Assets Other than Modification
A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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 Cooperative Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Cooperative Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Cooperative Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and a collateralized borrowing for the proceeds received

Financial Liabilities and Equity

Classification as Debt or Equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Cooperative Bank are recognized at the proceeds received, net of direct issue costs. Repurchase of the Cooperative Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Cooperative Bank's own equity instruments.

Financial Liabilities
All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for

derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Cooperative Bank, are measured in accordance with the specific accounting policies set out below.

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

Deposit liabilities are recorded or stated at amounts in which they are to be paid.

Bills payables are recognized initially at fair value, which is equivalent to the proceeds of the loan (fair value of consideration received). Bills payables are subsequently stated at amortized cost; any difference between the 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 are recognized as financial liabilities when the dividends are approved by the shareholders and the BSP.

Derecognition of Financial Liabilities
The Cooperative Bank derecognizes financial liabilities when, and only when, the Cooperative Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Cooperative Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Cooperative Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Cooperative Bank currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future events. 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 instrument

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 and improvement	20 to 25 years
• Transportation equipment	8 to 10 years
• Furniture, fixtures and equipment	2 to 5 years
• Information technology equipment	2 to 5 years

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

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

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 of those assets.

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

The carrying values of bank premises, furniture, fixtures and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of bank premises, furniture, fixtures and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment losses, if any, 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.

Investment Properties

Investment properties include parcels of land acquired by the Cooperative Bank from defaulting borrowers that are not expected to be sold within the next 12 months. These are initially measured at acquisition cost, which comprises 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. Investment properties also include building and improvements with currently undetermined use. Subsequently, investment properties are stated at cost less accumulated depreciation (except for land) and any impairment in value.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

ROPAs are booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). If the carrying amount of ROPA exceeds ₱5.0 million, the appraisal of the foreclosed/ purchased asset is to be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA are allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings are accounted for using the cost model under PAS/IAS 40 *Investment Property*;

(2) Other non-financial assets are accounted for using the cost model under PAS/IAS 16 *Property Plant and Equipment*;

(3) Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed twenty-five (25) years and ten (10) years from the date of acquisition, respectively; and

(4) Land, buildings and other non-financial assets are subject to the impairment provisions of PAS/IAS 36 *Impairment of Assets.*

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

Investment properties are derecognized when they have either been disposed of or when investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition.

Prepayments and Other Resources
Prepayments and other resources pertain to other resources controlled by the Cooperative 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.

Intangible Asset
Intangible asset (presented as part of Prepayments and Other Resources in the statements of financial position) pertains to an acquired computer software license used in the performance of financial services and administration, which is 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 acquiring an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of two years as the lives of the intangible asset is considered finite. The Cooperative Bank's intangible assets are fully amortized as of December 31, 2022 and 2021.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in profit or loss as incurred.

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.

Impairment of Non-Financial Assets
The Cooperative Bank's bank premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized in profit or loss 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. The data used for impairment testing procedures are directly linked to the Cooperative Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. 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.

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

Share Capital and Other Equity Accounts
Share capital, which consists of common and preferred shares, represents the nominal value of shares that have been issued.

Reserve for retirement of preferred shares was established by the Cooperative Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Bank's BOD.

Revaluation reserves comprise gains and losses on remeasurements of post-employment defined benefit assets or obligation.

Surplus and statutory reserves include all distributions of net surplus from current and prior period results, net of interest on share capital and patronage refunds, as reported in the statement of profit or loss, reduced by the amounts of dividends declared and any disbursements from the statutory reserves.

Statutory Funds
The Cooperative Bank establishes statutory funds in accordance with the provisions of R.A. No. 9520, An Act Amending the Cooperative Code of the Philippines to be Known as the "Philippine Cooperative Code of 2008".

The following are the nature of these funds:

a) *General Reserve Fund (GRF)*
   The General Reserve Fund, which receives 10% allocation every year from the net surplus of the Cooperative Bank, is intended for the stability of the Cooperative Bank and to meet losses in its operations. The General Assembly may decrease the amount allocated to the Fund when the Fund already exceeds the authorized share capital. Such sum of the reserve fund in excess of the share capital may be used at any time for any project that would expand the operations of the Cooperative

Bank upon the resolution of the General Assembly. Any sum recovered on items previously charged to the reserve fund shall be credited to such fund.

The Fund shall not be utilized for investments other than those allowed by the Cooperative Code. Upon the dissolution of the Cooperative Bank, the General Reserve Fund shall not be distributed to members. However, the General Assembly may resolve to establish a usufructuary trust fund for the benefit of any federation or union to which the Cooperative Bank is affiliated, or to donate, contribute, or otherwise dispose of the amount for the benefit of the community where the Cooperative Bank operates. If the General Assembly cannot decide upon the disposal of the Fund, the same shall go to the federation or union to which the Cooperative Bank is affiliated.

b) *Cooperative Education and Training Fund (CETF)*
The Cooperative Education and Training Fund, which also receives 10% allocation from the net surplus of the Cooperative Bank every year, is intended for the education and training and other purposes of the Cooperative Bank's members. Half of the allocation to the Fund is remitted to the Cooperative Education and Training Fund of the federation or union to which the Cooperative Bank is affiliated. Upon the dissolution of the Cooperative Bank, the unspent balance of the Fund shall be credited to the Cooperative Education and Training Fund of the federation or union to which the Cooperative Bank is affiliated.

c) *Community Development Fund (CDF)*
The CDF receives 3% allocation from the net surplus of the Cooperative Bank every year and is intended to be used for projects or activities that will benefit the community where the Cooperative Bank operates.

d) *Optional Fund*
The Optional Fund is intended either for land and building or any purposes. It receives 7% allocation from the net surplus of the Cooperative Bank every year.

Revenue and Cost Recognition
The Cooperative Bank's revenue is derived substantially from banking business and related activities and comprises net interest income and non-interest income. Income is recognized on an accrual basis in the period in which it accrues. Management has determined that the revenue from interest on loans and receivables are within the scope of PFRS 9 while the income from non-interest related activities are within the scope of PFRS 15.

The following specific criteria are the bases used in recognizing revenue:

Under PFRS 9
(a) Interest income and interest expenses are recognized in the statement of income for all financial assets or liabilities using the effective interest method on the basis of the cost of the individual financial instrument. The effective interest method is a method of calculating the amortized costs of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Cooperative Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Interest expense on deposit liabilities are recognized based on the accrual method of accounting, using the effective interest method which is the rate that exactly discounts estimated future cash flows through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial liability.

Under PFRS 15

The Cooperative Bank earns service fees and commissions on various banking services, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Cooperative Bank in accordance with PFRS 15. The Cooperative Bank has evaluated that these revenues are within the scope of PFRS 15, based on the following gating criteria:

For each contract with a customer, the Cooperative Bank:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the ‘expected value’ or ‘most likely amount’ method.

The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.

The Cooperative Bank recognizes income from other sources as follows:

(c) Service charges, loan fees and commissions are generally recognized when earned over the term of the credit lines granted to each borrower. Other non-finance charges on loans and penalties on delinquent accounts are recognized as the related services are performed.

(d) Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when collectability of the entire sales price is reasonably assured. This is included in the statement of income as part of Service Fees and Other Income.

Cost and Expenses

Costs and expenses are recognized in the statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen, which can be measured reliably. Costs and expenses are recognized in the statement of income: i) on the basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

(e) Administrative and other operating expenses include the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

Compensation and Fringe Benefits Expense
Employee benefits are all forms of consideration given by the Cooperative Bank in exchange for services rendered by employees or for the termination of their employment in the Cooperative Bank. The Cooperative Bank recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Cooperative Bank consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The following represent the accounting followed by the Cooperative Bank for all types of employee benefits, except share-based payment, to which there is none:

a) *Short-Term Employees' Benefits*
Short-term employees' benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries, profit-sharing and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service. The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Cooperative Bank expects to pay as a result of unused entitlements at the end of the period.

The amounts recognized are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Cooperative Bank expects to pay as a result of the unused entitlement.

b) *Post-employment Defined Benefit Plan*
A defined benefit plan is a post-employment plan that defines the 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 postemployment 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 at least every two years 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 for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

c) 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 obligation 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 or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

Leases – The Cooperative Bank as Lessee
The Cooperative Bank assesses whether a contract is or contains a lease, at inception of the contract. The Cooperative Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these low value leases, the Cooperative Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The Cooperative Bank is not a lessee of properties.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Cooperative Bank uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on Government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Cooperative Bank and the lease does not benefit from a guarantee from the Cooperative Bank. For the purpose of discounting, the Bank is using the average borrowing rate of its bills payable and time deposits.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payment of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Cooperative Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Cooperative Bank did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Cooperative Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS/IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Cooperative Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Cooperative Bank applies PAS/IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the bank premises, furniture, fixtures and office equipment policy. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line ‘Rent’ in the statement of profit or loss.

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead accounts for any lease and associated non-lease components as a single arrangement. The Cooperative Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Cooperative Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Leases – The Cooperative Bank as Lessor
The Cooperative Bank is not a lessor of properties. But the Cooperative follows the following policies should it find opportunities to lease its investment and other properties.

Leases for which the Cooperative Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Cooperative Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Cooperative Bank’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Cooperative Bank's net investment outstanding in respect of the leases.

Subsequent to initial recognition, the Cooperative Bank regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of PFRS 9, recognizing an allowance for expected credit losses on the lease receivable.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortized cost (i.e., after a deduction of the loss allowance).

When a contract includes both lease and non-lease components, the Cooperative Bank applies PFRS 15 to allocate the consideration under the contract to each component.

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 difference can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

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

Earnings per Share
Basic earnings per share (EPS) is computed by dividing the net surplus for the year attributable to common shareholders (net income for the period less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net surplus for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Distribution of Net Surplus
In accordance with the provisions of Republic Act 9520, otherwise known as the Philippine Cooperative Code of 2008, the Cooperative Bank distributes its net surplus as follows:

(1) At least ten percent (10%) is set aside as General Reserve Fund (GRF), to provide for the stability of the Cooperative Bank and to absorb losses in its operations, if any;

(2) Not more than ten percent (10%) is set aside for Cooperative education and training, with half of the amount to be used for the Cooperative Bank's own education and training activities and the other half to be remitted to the Cooperative Education and Training Fund (CETF) of the federation or union to which the Cooperative Bank is affiliated;

(3) Not more than seven percent (7%) is set aside as Land and Building Fund, which is optional; and

(4) At least three percent (3%) is set aside for the Community Development Fund.

The remainder is allocated for interest on share capital and/or patronage refund as determined by the Board of Directors, provided that the interest on capital shall not exceed the normal rate of return on investments prescribed by CDA.

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

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

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

Contingencies
A contingency arises when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a loss. The accounting for a contingency is essentially to recognize only those losses that are probable and for which a loss amount can be reasonably estimated. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized either, but these are generally disclosed unless the possibility of an outflow of resources is remote.

Provisions and Contingent Liabilities
Provisions are recognized when the Cooperative Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Cooperative Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Note 3
Significant Accounting Judgment and Estimates

In applying the Cooperative Bank's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Cooperative Bank are required to make judgments (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying the Cooperative Bank's Accounting Policies
The following are the critical judgments, apart from those involving estimations (which are presented separately below), that the management of the Cooperative Bank have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

a.) *Determination of Lease Term of Contract with Renewal 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 are only included in the lease term if the lease is reasonably certain to be extended.

The renewal options are subject to mutual agreement of the lessor and lessee. The Bank did not include the renewal periods as part of the lease term for its leases since the renewal options are not enforceable considering that both parties still need to agree to renew, including the terms of the renewal, even if both parties have historically always come to a mutual agreement.

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.

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.

Upon adoption of PFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but 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 financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs 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 solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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 Cooperative Bank determines whether a property qualifies as 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 property but also to other assets used in the Bank's operations

e.) *Classification and Determination of Fair Value of Acquired Properties*
The Cooperative Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

f.) *Recognition of Provisions and Contingencies*
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 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).

The Cooperative Bank complied with the requirements of Attachment 3 of the BSP Circular No. 1011, which sets out the basic guidelines in setting up allowance for impairment on loans for financial institutions with credit operation that may not economically justify a more sophisticated loan loss estimation methodology. The Cooperative Bank's management assessed that the allowance for impairment of loans and receivables computed using the Appendix 15 BSP Circular No. 1011 would not result in an amount that is materially misstated had PFRS 9's ECL methodology been used and implemented for the loan portfolio.

b.) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment*
The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are presented in Notes 6 and 7, respectively. Based on management's assessment as of December 31, 2022 and 2021, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in the factors mentioned above.

c.) *Determination of Realizable Amount of Deferred Tax Assets*
The Cooperative 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 17.

d.) *Impairment of Non-Financial Assets*
The Cooperative Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

e.) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*
The Bank measures its lease liabilities at the 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.

f.) *Determination of Fair Value of Investment Properties*
Investment Properties are measured using the cost model. The fair values that are disclosed in the financial statements are determined by the Cooperative Bank based on the appraisal reports of a professional and independent appraiser. (see Note 7). The fair values are determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such an amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

g.) *Valuation of Post-employment Defined Benefit Asset or Obligation*
The determination of the Bank's asset or 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 increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period. The amounts of post-employment defined benefit asset or 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 are presented in Note 12.

Note 4
Cash and Cash Equivalents

This consists of the following:

December 31,	2022	2021
Due from other banks	₱682,553,528	₱526,906,784
Cash and other cash items	38,855,279	23,834,400
Due from Bangko Sentral ng Pilipinas	30,032,326	28,429,133
	₱751,441,133	₱579,170,317

The due from other banks represents restricted and unrestricted cash and earns interest at prevailing market rates. Interest income from bank deposits amounted to ₱881,643 and ₱987,572 in 2022 and 2021, respectively, which is presented as interest income on deposits with other banks in the statements of profit or loss.

Cash on hand represents the daily minimum cash balance in the vault of the Cooperative Bank for a certain percentage of the deposit liabilities required by BSP to be retained. 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.

Due from Bangko Sentral ng Pilipinas represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements. The Bank has satisfactorily complied with the reserve requirements of the BSP. The deposit does not earn interest.

Note 5
Loans and Receivables

The loans and receivables from the Cooperative Bank's customers are categorized as follows:

December 31,	2022	%	2021	%
Loans receivable	₱2,502,799,508	99.38	₱2,025,775,159	99.41
Accrued interest receivable	13,489,538	0.54	10,122,251	0.50
Accounts receivables	1,851,651	0.07	1,553,856	0.08
Sales contract receivable	140,000	0.01	200,500	0.01
Total	2,518,280,697	100.00	2,037,651,766	100.00
Less allowance for expected credit losses	271,681,198	12.09	208,546,075	11.40
Net	₱2,246,559,499	87.91	₱1,829,105,691	88.60

December 31,	2022	%	2021	%
Breakdown of Loans Receivable				
Loans receivable:				
Individual consumption	₱1,301,116,289	52	₱1,252,000,533	62
Agricultural	541,488,052	22	406,422,188	20
Commercial	333,657,176	13	237,471,260	12
Others	326,537,991	13	129,881,178	6
Total	2,502,799,508	100	2,025,775,159	100
Less allowance for expected credit losses	270,439,347	12	207,296,822	11
Net	₱2,232,360,161	88	₱1,818,478,337	89
Breakdown of Accrued Interest Receivable				
Accrued interest receivable:	₱13,489,538	100	₱10,122,251	100
Less allowance for expected credit losses	134,895	1	101,223	1
	₱13,354,643	99	₱10,021,028	99
Breakdown of Accounts Receivable				
Accounts receivable:	₱1,851,651	100	₱1,553,856	100
Allowance for probable losses	(1,106,956)	60	(1,148,030)	74
	₱744,695	40	₱405,826	26

Loans receivable bear interest rates ranging from 6% to 30% per annum collectible over a period of 1 month to 10 years. Income on loans recognized in the statements of profit or loss amounted ₱358,370,769 in 2022 and ₱346,357,229 in 2021. Loan servicing fees amounted ₱125,802,101 in 2022 and ₱101,809,171 in 2021. (See Note 15.)

Loans amounting to ₱345,520,062 in 2022 and ₱383,437,897 in 2021 are assigned to secure the bills payable to LBP under the Coop Bank's rediscounting lines with LBP. (See note 10). Loans to Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱26,902,821 in 2022 and ₱23,771,758 in 2021 representing 1.07% and 1.17% of the total loan portfolio as at those dates, respectively. Other loans mainly pertain to salary loan releases, the proceeds of which are being used by the borrowers in different industries.

Accounts receivable represents amounts due from members, employees and other parties, which is due and demandable within one year.

December 31,	2022	%	2021	%
Breakdown by Type of Security				
Secured by real estate	₱360,546,554	14	₱165,936,930	8
Secured by chattel	9,797,658	4	11,011,468	1
Other security	41,665,443	1.6	36,119,471	2
Secured loans	412,009,655	16	213,067,869	11
Unsecured loans	2,090,789,853	84	1,812,707,290	89
Total loans	₱2,502,799,508	100	₱2,025,775,159	100
Maturity Profile				
Due within 12 months	₱1,415,938,908	57	₱719,231,612	36
Due more than 12 months	1,086,860,600	43	1,306,543,547	64
Total loans and receivables	₱2,502,799,508	100	₱2,025,775,159	100
Breakdown by Concentration of Credit				
Agriculture, forestry and fishing	₱732,310,760	29.26	₱815,586,367	40.26
Wholesale and retail trade	574,071,048	22.94	306,230,074	15.12
Information and communication	397,653,123	15.89	478,472,383	23.62
Human health and social work activities	193,179,860	7.72	179,950,802	8.88
Real estate activities	101,837,904	4.07	88,318,306	4.36
Accommodation and food storage	69,272,537	2.77	49,069,194	2.42
Financial and insurance activities	40,268,406	1.61	36,931,801	1.82
Construction	76,955,882	3.07	24,395,338	1.20
Manufacturing	69,824,506	2.79	13,038,311	0.64
Transportation and storage	16,549,320	0.66	3,847,822	0.19
Other service activities	230,876,162	9.22	29,934,761	1.48
	₱2,502,799,508	100.00	₱2,025,775,159	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

Breakdown by Age of Accounts

December 31, 2022	*Current*	*Past Due*	*In Litigation*	*Total*
Individual consumption	₱1,052,723,964	₱247,173,364	₱1,218,961	₱1,301,116,289
Agricultural	485,066,493	56,139,352	282,208	541,488,053
Commercial	273,873,875	59,236,818	546,483	333,657,176
Others	320,754,302	5,783,688	–	326,537,990
	₱2,132,418,634	₱368,333,222	₱2,047,652	₱2,502,799,508
	85.2%	14.7%	0.1%	100.0%
December 31, 2021				
Individual consumption	₱997,594,077	₱253,182,795	₱1,223,661	₱1,252,000,533
Agricultural	267,651,249	138,488,732	282,207	406,422,188
Commercial	188,787,620	48,087,613	596,028	237,471,261
Others	124,904,965	4,976,212		129,881,177
	₱1,578,937,911	₱444,735,352	₱2,101,896	₱2,025,775,159
	78%	22%	0%	100%

Non-Performing Loans

The non-performing loans as defined under Section 304 of the MORB amounted to ₱347,537,492 in 2022 and ₱362,991,399 in 2021.

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off. The Cooperative Bank reported no restructured loans in 2022 and in 2021.

The Cooperative Bank availed itself of rediscounting facilities from LBP with interest rates of 4.88% to 7.00% in both years presented. These loans are collateralized by assignment of the Bank borrowers' promissory notes and real estate mortgages amounting to ₱345,520,062 in 2022 and ₱383,437,897 in. (See note 10).

Interest income recognized on impaired loans and receivables amounted to ₱61,143,091 and ₱52,633,625 in 2022 and 2021, respectively.

Breakdown As to Status of Loans

December 31, 2022	*Performing*	%	*Non-Performing*	%	*Total*	%
Individual consumption	₱1,146,332,722	53	₱238,450,692	69	₱1,384,783,414	55
Agricultural	493,108,614	23	48,379,438	14	541,488,052	22
Commercial	266,678,151	12	59,783,301	17	326,461,452	13
Others	249,142,529	12	924,061	0	250,066,590	10
	₱2,155,262,016	100	₱347,537,492	100	₱2,502,799,508	100
December 31, 2021						
Individual consumption	₱1,035,587,497	62	₱216,413,037	60	₱1,252,000,533	62
Agricultural	312,230,119	19	94,192,069	26	406,422,188	20
Commercial	188,787,620	11	48,683,640	13	237,471,260	12
Others	126,178,524	8	3,702,653	1	129,881,178	6
	₱1,662,783,760	100	₱362,991,399	100	₱2,025,775,159	100

Allowance for Expected Credit Losses (ECL)

The accounts were subjected to impairment testing using the expected credit loss model by considering possible defaults for the next 12 months (12-month ECL) and expected credit losses for the entire remaining life of the receivables (lifetime ECL). Additional provision for the 12-month ECL was recognized in 2022 amounting ₱ 70,000,000 and ₱54,398,971 for 2021. The existing allowance already covered the lifetime ECLs of impaired accounts at the end of the year.

The recorded ECL have been determined from the gap analysis performed by the Cooperative Bank on its accounts which are in accordance with Appendix 15 (Appendix to Section 143) of the MORB. A 12-month ECL was provided at 1% of on all current accounts (general loan-loss provisions) and ECL at graduated rates for accounts classified as past due as follows:

I. Individually Assessed Loans and Other Credit Accommodations

A. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
31-90 days	Substandard	10%
91-120 days	Substandard	25%

(Carried Forward.)

(Brought Forward.)

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
121-180 days	Doubtful	50%
181 days and over	Loss	100%

B. For Secured Loans and Other Credit Accommodations

31-180 days	Substandard	10%
181-365 days	Substandard	25%
Over 1 year to 5 years	Doubtful	50%
Over 5 years	Loss	100%

C. For Loans and Other Credit Exposures (Classified Accounts)

Especially Mentioned	5%
Substandard – Secured	10%
Substandard – Unsecured	25%
Doubtful	50%
Loss	100%

II. Collectively Assessed Loans and Other Credit Exposures

D. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
1-30 days	LEM	2%
31-60 days	Substandard	25%
61-90 days	Doubtful	50%
Over 90 days	Loss	100%

E. For Secured Loans and Other Credit Accommodations

31-90 days	Substandard	10%
91-120 days	Substandard	15%
121-360 days	Doubtful	25%
361 days-5 years	Loss	50%
Over 5 years	Loss	100%

Roll-Forward Analysis of the Allowance for ECL

December 31,	2022	2021
Opening balances	₱208,546,075	₱155,401,343
Additional provisions for the year	70,020,700	54,734,108
Recoveries	–	(982,657)
Written-off accounts	(6,885,577)	(606,719)
Closing balances	₱271,681,198	₱208,546,075

In August 2020, the BSP has approved the Cooperative Bank's request for staggered booking of allowance for impairment over a maximum period of five years for all types of credits extended to individuals and business directly affected by the COVID-19. The total allowance for impairment requested for staggered booking amounted to ₱349,274,305 covering 37,118 loan accounts as of June 30, 2020. As of December 31, 2022, and 2021, the remeasured allowance for impairment on the remaining outstanding loan accounts is ₱50,469,822 and ₱213,639,195, respectively.

The Cooperative Bank has determined that after the provision of additional expected credit losses, the level of its allowance for expected credit losses approximates the requirements of Section 143 of the MORB.

A breakdown of the impairment losses on loans and receivables, which is presented in the statements of profit or loss, is shown as follows: (Please see table next page.)

December 31,	2022	2021
Impairment losses due to staggered booking of allowance for ECL	₱7,761,512	₱15,447,692
Impairment losses under PFRS	62,259,188	39,286,416
Impairment losses recognized	₱70,020,700	₱54,734,108

Allocation of Provision for ECL for Non-Members of Income Tax Computations
The provisions for ECL allocated to non-members for income tax purposes amounted to ₱18,625,506 in 2022 and ₱18,062,256 in 2021, representing 70% of the total provisions. Written-off accounts allocated to non-members for income tax purposes amounted to ₱1,831,563 in 2022 and none in 2021. (See note 17.)

Note 6
Bank Premises, Furniture, Fixtures and Equipment and Right of Use Assets

Bank Premises, Furniture, Fixtures and Equipment – At Cost
This account consists of the following:

December 31,	2022	2021
Land	₱44,780,235	₱38,895,946
Buildings	83,945,801	80,759,392
Furniture, fixtures, and office equipment	31,027,539	28,180,068
Transportation equipment	25,324,218	32,426,170
Information technology equipment	28,360,207	24,221,398
Construction in Progress	8,400,588	4,201,829
Leasehold Improvement	9,508,322	4,549,966
Total	231,346,910	213,234,769
Less accumulated depreciation	86,448,436	80,425,721
Net Book Value	₱144,898,474	₱132,809,048

Reconciliation of the Movements of the Accounts

December 31, 2022	*Opening Balances*	*Additions*	*Retirmnts/Reclass*	*Closing Balances*
Cost				
Land	₱38,895,946	₱7,060,250	(₱1,175,961)	₱44,780,235
Buildings	80,759,392	7,003,872	(3,817,463)	83,945,801
Furniture, fixtures, & office equip't	28,180,068	2,847,451	–	31,027,519
Transportation equipment	32,426,170	5,410,425	(12,512,377)	25,324,218
Information technology equipment	24,221,398	4,156,309	(17,500)	28,360,207
Construction in progress	4,201,829	4,552,034	(353,275)	8,400,588
Leasehold improvements	4,549,966	7,842,291	(2,883,915)	9,508,342
Total	213,234,769	38,872,632	(20,760,491)	231,346,910
Less accumulated depreciation				
Building	₱24,739,308	4,340,462	(1,839,343)	₱27,240,427
Furniture, fixtures, & office equip't	19,583,502	3,369,559	66,137	23,019,198
Transportation equipment	18,433,006	2,577,491	(8,181,141)	12,829,356
Information technology equipment	15,363,106	3,791,340	(254,140)	18,900,306
Leasehold improvements	2,306,799	2,152,350	–	4,459,149
Total	80,425,721	16,231,202	(10,208,487)	86,448,436
Net Book Value	₱132,809,048	₱22,641,430	(₱10,552,004)	₱144,898,474

December 31, 2021	*Opening Balances*	*Additions*	*Retirmnts/Reclass*	*Closing Balances*
Cost				
Land	₱32,825,946	₱6,070,000	₱–	₱38,895,946
Buildings	55,195,434	25,563,958	–	80,759,392
Furniture, fixtures, & office equip't	24,936,071	3,363,250	(119,253)	28,180,068
Transportation equipment	24,184,630	8,307,440	(65,900)	32,426,170
Information technology equipment	20,776,542	3,444,856	–	24,221,398
Construction in progress	16,156,562	(11,954,733)	–	4,201,829
Leasehold improvements	1,790,756	2,759,210	–	4,549,966
Total	175,865,941	37,553,981	(185,153)	213,234,769
Less accumulated depreciation				
Buildings	21,091,683	3,647,625	–	24,739,308
Furniture, fixtures, & office equip't	16,777,786	2,811,141	(5,425)	19,583,502
Transportation equipment	16,216,150	2,249,806	(32,950)	18,433,006
Information technology equipment	12,282,269	3,080,837	–	15,363,106
Leasehold improvements	429,891	1,876,908	–	2,306,799
Total	66,797,779	13,666,317	(38,375)	80,425,721
Net Book Value	₱109,068,162	₱23,887,664	(₱146,778)	₱132,809,048

In 2022 and 2021, the Cooperative Bank recognized gain on retirement of bank premises, furniture, fixtures and equipment amounting to ₱3,297,816 and ₱236,396, respectively. The amount is presented as part of Other Operating Income in the statements of profit or loss. (See Note 15.)

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.

Right-of-Use Asset

This account consists of the following:

December 31,	2022	2021
Right-of-use assets	₱8,743,908	₱4,513,999
Accumulated depreciation	(3,829,721)	(1,908,331)
Net Book Value	₱4,914,187	₱2,605,668

The Cooperative Bank has leases for buildings and spaces occupied by its branches dispersed in strategic locations within Mindanao. With the exception of short-term leases and leases of low value assets, the leases are reflected on the statement of financial position collectively as right-of-use assets and lease liabilities. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liabilities and assets.

The Cooperative Bank discounted the future lease payments at 2.879% per annum, the incremental borrowing rate (IBR) based on the average borrowing rate of the Cooperative Bank's existing loans payable to a Government banks. (See Note 11.). The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. The Bank applied a single discount rate to the portfolio of leases as it considers the leases similar in class of underlying assets in a similar economic environment.

During 2022, the Bank recognized its right-of-use assets at ₱4,229,910 and lease liability at ₱4,229,910, interest expense of ₱91,360 and depreciation expense of ₱1,921,390. Total lease payments (including interest) amounted

₱1,978,000 in 2022 and ₱1,572,000 in 2021. Deductible rent expense allocated to non-members for income tax purposes amounted to ₱526,148 in 2022 and ₱518,760 in 2021.

Reconciliation of Carrying Amounts

December 31, 2022	*Opening Balances*	*Additions*	*Disposal/Adjustment*	*Closing Balances*
Right-of-use assets	₱4,513,999	₱4,229,909	₱–	₱8,743,908
Less accumulated depreciation	1,908,331	1,921,390		3,829,721
Net Book Value	₱2,605,668	₱2,308,519	₱–	₱4,914,187
December 31, 2021				
Right-of-use assets	₱2,451,450	₱2,062,549	₱–	4,513,999
Less accumulated depreciation	410,904	1,497,427	–	1,908,331
Net Book Value	₱2,040,546	₱565,122	₱–	₱2,605,668

Lease Liabilities

Lease liabilities are presented in the statement of financial position as follows:

December 31,	2022	2021
Current	₱1,598,741	₱1,635,908
Non-current	3,400,712	1,020,275
	₱4,999,453	₱2,656,183

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 incur maintenance fees on the leased assets in accordance with the lease contracts.

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

December 31,2022	*Within one year*	*1 to 2 years*	*2 to 5 years*	*Total*
Lease payments	₱1,735,400	₱1,183,840	₱2,420,387	₱5,339,627
Finance Charges	(136,659)	(92,600)	(110,915)	(340,174)
Net present values	₱1,598,741	₱1,091,240	₱2,309,472	₱4,999,453
December 31,2021				
Lease payments	₱1,694,000	₱801,000	₱240,000	₱2,735,000
Finance Charges	(58,092)	(19,007)	(1,718)	(78,817)
Net present values	₱1,635,908	₱781,993	₱238,282	₱2,656,183

Lease Payments Not Recognized as Liabilities

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

The rent payments amounted to ₱3,600,728 and ₱1,117,623 in 2022 and 2021, respectively and is presented as part of Other Operating Expense in the statement of profit of loss. (See Note 16.)

Details of Depreciation Expense

Depreciation as presented in profit or loss consisted of the following: (Please see table next page.)

December 31,	2022	2021
Depreciation on bank premises, furniture, fixture and equipment	₱16,231,202	₱14,219,416
Depreciation on right-of-use assets	1,921,390	1,497,427
Investment property *(Note 7)*	612,314	553,099
	₱18,764,906	₱16,269,942

Note 7
Investment Properties

This account consists of land and real properties acquired in settlement of loans, which are held for capital appreciation. In 2020, certain land and buildings that are no longer used in operations were transferred to noncurrent assets held for sale from bank premises, furniture, fixtures and equipment. Investment properties are carried at cost less accumulated depreciation and allowance for impairment.

December 31,	2022	2021
Cost	₱6,635,095	₱6,173,762
Accumulated depreciation	(2,319,021)	(1,706,707)
Allowance for impairment	(156,820)	(156,820)
Net carrying amount	₱4,159,254	₱4,310,235
Reconciliation of the Carrying Amount of Investment Properties		
Opening balances	₱4,310,235	₱4,863,334
Additions	461,333	–
Depreciation	(612,314)	(553,099)
Closing balances	₱4,159,254	₱4,310,235

Income from disposed-off investment properties amounted ₱1,578,940 in 2022 and ₱400,000 in 2021. The fair market value of assets disposed amounted to ₱5 million in 2022 and ₱663,603 in 2021. (See Note 15).

Note 8
Other Assets

This account consists of the following:

December 31,	2022	2021
Deferred tax assets *(Note 17)*	₱48,245,673	₱45,072,004
Prepayments	4,019,872	2,923,353
Stationery and supplies on hand	2,227,175	1,251,648
Financial asset at FVOCI	1,156,263	156,263
Financial asset at amortized cost	606,312	606,311
	₱56,255,295	₱50,009,579

The following are the natures of the assets:

(1) Prepayments pertain to advance payments of insurance expenses covering Cooperative Bank premises, furniture, fixtures and equipment, money securities and payroll.

(2) Financial asset at fair value thru other comprehensive income consists of investment in Cooperative Insurance System of the Philippines (CISP), Metro South Cooperative, BANGKOOP and DIGICOOP.

(3) Financial asset at amortized cost consists of the investments in bonds of Land Bank of the Philippines.

(4) The Cooperative Bank has determined that its other assets have not been impaired at the end of the year.

Note 9
Deposit Liabilities

This account is composed of the following:

December 31,	2022	2021
Savings deposits	₱900,419,477	₱808,888,900
Time deposits	782,516,957	636,912,787
Demand deposits	25,107,625	5,852,903
	₱1,708,044,059	₱1,451,654,590

Maturity Analysis of Time Deposits

December 31,	2022	2021
12 months and below	₱621,590,025	₱505,929,784
Over 12 months to five years	160,926,932	130,983,003
	₱782,516,957	₱636,912,787

The deposit liabilities earn annual fixed interest of 1% for savings deposits, and from 1% to 12% for time deposits. Total interest incurred amounted to ₱53,596,548 in 2022 and ₱47,810,280 in 2021.

Deposits of Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱12,248,829 in 2022 and ₱13,214,148 in 2021, representing 1.32% and 1.62% of the total depository balance as at those dates, respectively.

Note 10
Bills Payable

This consists of the following:

December 31,	2022	2021
Land Bank of the Philippines (LBP)	₱308,741,188	₱226,243,772
Development Bank of the Philippines (DBP)	194,700,000	25,000,000
SB-Guarantee Finance Corporation (SB-GFC)	109,287,852	48,465,938
	₱612,729,040	₱299,709,710

Maturity Profile

December 31,	2022	2021
One year and below	₱66,680,730	₱73,845,217
More than one year	546,048,310	225,864,493
	₱612,729,040	₱299,709,710

The Cooperative Bank availed itself of rediscounting facilities from LBP with interest rates of 4.88% to 7.00% in both years collateralized by the assignment of the Bank borrowers' promissory notes and real estate mortgages totaling ₱345,520,062 in 2022 and ₱383,437,897 in 2021. (See Note 6.)

The bills payable to DBP bears interest of 2.76% per annum and is collateralized by hold-out on the Cooperative Bank's deposits with DBP amounting to ₱0 in 2022 and ₱31,471,018 in 2021. The bills payable to SBGFC bear an interest rate of 2.00% to 8.00% per annum with two years term and payable quarterly. These are clean loans covered by postdated checks.

Interest incurred on bills payable amounted ₱11,170,391 in 2022 and ₱17,683,178 in 2021.

Accounting of the Movements During the Year:

December 31,	2022	2021
Opening balances	₱299,709,710	₱389,082,076
Additional loans availed during the year	520,752,624	287,605,921
Payments of principal amortizations during the year	(207,733,294)	(376,978,287)
Closing balances	₱612,729,040	₱299,709,710

Note 11
Other Liabilities

This consists of the following:

December 31,	2022	2021
Retirement fund payable *(Note 12)*	₱57,630,392	₱55,038,285
Cash dividend payable (See table below.)	28,059,894	17,303,228
Accrued expenses (See paragraph below.)	27,633,999	15,048,431
Due to CETF	18,823,216	26,114,314
Accrued interest payable *(Note 10)*	10,144,868	7,962,227
Withholding tax payable	3,253,606	1,861,153
Income tax payable	2,477,312	2,383,329
Documentary stamp tax (DST) payable	1,849,602	1,677,346
Accounts payable	1,673,500	4,926,018
Others	921,211	1,124,496
	₱152,467,600	₱133,438,827

Cash Dividends Payable

The accounting of the movements of the Account during the year follows:

December 31,	2022	2021
Opening balances	₱17,303,228	₱28,382,855
Dividend declared *(Note 14)*	17,104,154	–
Adjustments	(407,229)	–
Cash dividends paid during the year	(5,940,259)	(11,079,627)
Closing balances	₱28,059,894	₱17,303,228

Accrued and Other Liability Accounts

Accrued expenses represent payables to various suppliers that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period. CETF payable refers to the amount for remittance to the apex organization of which the Cooperative Bank is a member.

Note 12
Post-employment Defined Benefit Obligation

The Cooperative Bank's employees are provided with separation benefits at retirement in accordance with the provisions of R.A. 7641. The Cooperative Bank maintains a partially funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by trustee banks that are legally separated from the Bank. The post-employment plan covers all regular full-time employees. Normal retirement benefit is equivalent to125% of the employee's final monthly covered compensation (average monthly basic salary during the last 12 months of credit service), plus one twelfth (1/12) of the 13th month pay, and cash equivalent of not more than five (5) days of service incentive leaves, multiplied by the number of years of service. A fraction of six (6) months is considered as one whole year. A fraction of one (1) month is considered six (6) months.

The Cooperative Bank's retirement benefits obligation as of the year end were established based on actuarial valuations as required under PAS/IAS 19 Employee Benefits and PAS/IAS 26, Accounting and Reporting by Retirement Benefit Plans. The computed retirement benefits obligation approximates the recorded retirement liability, thereby stating fairly the Cooperative Bank's retirement benefits liability at the end of the year. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary with a valuation dated December 31, 2022.

December 31	2022	2021
Components of Post-Employment Defined Benefit Asset		
Fair value of plan assets	(₱69,198,830)	(₱57,515,636)
Present value of the obligation	57,630,392	55,038,285
Net Obligation/ (Asset)	(₱11,568,438)	(₱2,477,351)
Movements in the Present Value of Post-Employment Defined Benefit Obligation		
Balance at beginning of year	₱55,038,285	₱56,558,026
Actuarial losses (gains)	(3,990,071)	(5,263,637)
Current service cost	3,824,760	3,784,188
Interest expense	2,757,418	2,239,698
Benefits paid	–	(2,279,990)
Balance at end of year	₱57,630,392	₱55,038,285
Movements in the Present Value of Plan Assets		
Balance at beginning of year	₱57,515,636	₱48,220,843
Actual contribution	10,189,144	11,574,783
Benefits paid	–	(2,279,990)
Interest income	2,881,533	1,909,545
Return on plan assets (excluding amounts included in net interest)	(1,387,483)	(1,909,545)
Balance at end of year	₱69,198,830	₱57,515,636

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

As Reported in Profit or Loss		
Current service cost	₱3,824,760	₱3,784,188
Net interest expense(income)	(124,115)	330,153
	₱3,700,645	₱4,114,341

The net deductible retirement expense, for income tax purposes representing 70% of the total retirement expense amounted to ₱2,590,451 in 2022 and ₱4,114,341 in 2021. (See Note 17.) The net interest income and expense are presented as Interest Expense and Interest Income on the net Post-employment Defined Benefit Obligation or Asset, respectively, 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.

December 31	2022	2021
As Reported in Other Comprehensive Income		
Actuarial (gains) losses arising from:		
Change in financial assumptions	₱8,193,392	₱5,263,637
Due to Experience	(4,203,321)	–
Return on plan assets (excluding amount included in net interest)	(1,387,483)	(1,909,545)
Total	2,602,588	3,354,092
Deferred tax (asset)/liability	(650,647)	(838,523)
Remeasurement gain (loss) – net of tax	₱1,951,941	₱2,515,569
Movement in the Net Liability/(Asset) Recognized in the Balance Sheet		
Opening Net Liability/ (Asset)	(₱2,477,351)	₱8,337,183
Amount to be Recognized in Profit or Loss	3,700,645	4,114,341
Amount to be Recognized in OCI	(2,602,588)	(3,354,092)
Actual contributions	(10,189,144)	(11,574,783)
Liability/(asset) to be recognized at the end of the year	(₱11,568,438)	(₱2,477,351)
Movement in the Revaluation Surplus Recognized in the Balance Sheet		
Opening Balance	(₱10,833,663)	(₱13,349,232)
Amount to be Recognized in OCI	2,602,588	3,354,092
Deferred Tax Asset	(650,647)	(838,523)
Revaluation Surplus at the end of the year	(₱8,881,722)	(₱10,833,663)

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

Discount rates	7.44%	5.01%
Expected rate of salary increases	1.00%	1.00%

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 defined benefit obligation:

December 31, 2022	*Change in assumption*	*Increase in assumption*	*Decrease in assumption*
Discount rate	+/- 1.00%	(2,274,145)	2,837,081
Salary increase rate	+/- 1.00%	2,937,836	(2,378,329)
December 31, 2021			
Discount rate	+/- 1.00%	(3,288,958)	4,157,641
Salary increase rate	+/- 1.00%	4,202,728	(3,373,842)

Funding Arrangements and Expected Contributions

December 31,	2022	2021
Within one year	₱6,130,728	₱2,915,914
More than one year to five years	13,709,529	9,252,741
More than five years to ten years	13,217,595	18,168,907

(Carried Forward.)

(Brought Forward.)

December 31,	2022	2021
More than ten years to fifteen years	43,191,494	30,263,797
More than 15 years to 20 years	36,360,044	35,790,474
More than 20 years	376,258,992	311,420,056
	₱488,868,382	₱407,811,889

The plan is currently overfunded by ₱11,568,438 based on the latest actuarial valuation. The Cooperative Bank does not expect to make contribution to the plan during the next financial year. The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years. There were no significant changes in the retirement profile, demographic and financial assumptions and other circumstances that could materially impact the valuation and remeasurements of the Cooperative Bank's post-employment defined benefit obligation as of December 31, 2022, from the assumptions and circumstances as of December 31, 2021.

Note 13
Share Capital

This account consists of the following:

December 31,	2022	2021
Ordinary (Common) Shares		
Authorized – 164,000 shares, ₱1000 par value		
Issued and outstanding shares: 73,629 in 2022 and 69,579 in 2021	₱73,629,000	₱69,579,000
Fractional shares – 85.159 in both years	85,159	85,159
Preference (Preferred) Shares "A"		
Non-Voting and Convertible, Authorized – 1,000 shares, ₱1000 par value		
Issued and outstanding – 1000 shares	1,000,000	1,000,000
Preference (Preferred) Shares "B"		
Non-Voting and Convertible, Authorized – 5,000 shares, ₱1000 par value		
Issued and outstanding – 0 shares	–	–
Preference (Preferred) Shares "C"		
Non-Voting and Convertible, Authorized – 30,000 shares, ₱1000 par value	2,441,000	2,441,000
Issued and outstanding – 2441 shares		
	₱77,155,159	₱73,105,159

Nature of Capital

Preference (preferred) shares 'A' are issued only against investments of the Development Bank of the Philippines (DBP) in the share capital of the Cooperative Bank and shall have preference over common shares in the assets of the Cooperative Bank in the event of liquidation. However, in case of sale of the Development Bank of the Philippines of its preferred shares to those qualified to be members of the Cooperative Bank, such shares shall automatically become common shares with voting rights, thereby reducing the number of outstanding preferred shares 'A' and increasing the number of outstanding common shares. When preferred shares 'A' of the Cooperative Bank have been sold to member-cooperatives, the Articles of Cooperation of the Cooperative Bank shall be amended to reflect the conversion of preferred shares into common shares. These shares are entitled to a maximum of two percent (2%) interest on share capital, subject to the declaration of interest on common shares.

Preference (preferred) shares "B" shall be issued only to cover investments of the Land Bank of the Philippines in the share capital of the Cooperative Bank and shall have preference over common shares in the assets of the Cooperative Bank in the event of liquidation.

These shares are entitled to preference as to profits before any cash/stock dividends are declared and paid out to holders/owners of the common shares. It shall earn non-cumulative cash dividend at the following rates:

a) Four percent (4%) per annum if redeemed within the first two (2) years from issuance of the shares;
b) Six Percent (6%) per annum if redeemed within the 3rd to the 4th year from issuance of the shares;
c) Eight percent (8%) per annum if redeemed within the 5th to the 6th year from issuance of the shares;
d) Ten percent (10%) per annum if redeemed within the 7th to the 8th year from issuance of the shares;
e) Twelve percent (12%) per annum if redeemed within the 9th to the 10th year from issuance of the shares.

Preference (preferred) shares “B” are convertible into common shares after the tenth year at the same par value as before conversion. Preference (preferred) shares “C” shall be issued only to cover the investment of qualified non-cooperative institutions, private persons and individuals and shall have preference over the common stock as to assets in case of dissolution. These shares are entitled to a maximum of 2.00% interest.

Reserve for retirement of preferred shares
Reserve for retirement of preferred shares amounting to ₱3,441,000 in 2022 and 2021 was established by the Cooperative Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Cooperative Bank’s BOD.

Compliance with Minimum Capital Required
In accordance with Section 121 *Minimum Required Capital* of the MORB, the Cooperative Bank’s minimum capital is pegged at ₱40 million. As of 2022, the Cooperative Bank has complied with this capitalization requirement.

Compliance with Regulatory Requirements
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 PFRSs in some aspect. The BSP determines the minimum level of capital to be held by the Bank against its market risks, in addition to its credit risk. Appendix 62 of the MORB defines risk-based capital adequacy ratio as a percentage of qualifying capital to risk-weighted assets which shall not be less ten percent (10.00%). Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptance under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board.

As at December 31, 2022, the Bank is in compliance with the minimum capital-to-risk ratio. Please see significant ratios in the following section.

Significant Financial Ratios
The financial ratios of the Cooperative Bank for the years 2022 and 2021 are as follows:

December 31,	2022	2021
Return on Average Equity	5.14%	8.17%
Return on Average Assets	1.28%	2.23%
Net Interest Margin	11.42%	11.22%
Tier 1 Capital (in thousands)	₱589,828	₱664,767
Tier 2 Capital (in thousands)	₱20,976	₱15,726
CET 1 Capital (in thousands)	₱73,714	₱69,664
Total Qualifying Capital (in thousands)	₱610,804	₱680,493
Total Risk-Weighted Assets (in thousands)	₱3,245,649	₱2,709,821
Tier 1 Ratio	18.17%	24.53%
Risk-Based Capital Adequacy Ratio	18.82%	25.11%
Minimum Liquidity Ratio	44.41%	39.52%

Debt to Equity Ratio

December 31,	2022	2021
Total Liabilities	₱2,478,240,152	₱1,887,459,310
Total Equity	730,027,690	710,551,228
Overall financing	₱3,208,267,842	₱2,598,010,538
Debt-to-Equity Ratio	3.39	2.66

Gearing Ratio

The Cooperative Bank's Gearing ratios computed at the end of each year are as follows:

December 31,	2022	2021
Borrowings (total liabilities)	₱2,478,240,152	₱1,887,459,310
Less cash and cash equivalents	751,441,133	579,170,317
Net Debt	1,726,799,019	1,308,288,993
Total Equity	730,027,690	710,551,228
Equity and Net Debt	₱2,456,826,709	₱2,018,840,221
Gearing Ratio (Net Debt / Equity and Net Debt)	70%	65%

Gearing (otherwise known as "leverage") measures the proportion of assets invested in a business that are financed by long-term borrowing. In theory, the higher the level of borrowing (gearing) the higher are the risks to a business since the payment of interest and repayment of debts are not "optional" in the same way as dividends to shareholders. However, gearing can be a financially sound part of a business's capital structure particularly if the business has strong, predictable cash flows.

The Cooperative Bank will strive to reduce its gearing ratio by reducing working capital through increasing the speed of loans receivable collections and/or lengthening the days required to pay accounts payable, thereby producing cash that can be used to pay down borrowings. It will also try to increase profits through a combination of an increase in market share and control of variable costs so that the Cooperative Bank can generate more cash with which to pay down borrowings.

Capital Management Objectives, Policies and Procedures

BSP, as the Cooperative Bank's lead regulator, sets and monitors capital requirements for the Cooperative Bank. In implementing current capital requirements, the BSP requires the Cooperative Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. The Cooperative Bank's policy is to maintain a strong capital base to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Cooperative Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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 Cooperative Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

(a) Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) Total outstanding unsecured credit accommodations to DOSRI;
(c) Deferred tax asset or liability;
(d) Sinking fund for redemption of redeemable preferred shares; and
(e) Other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Supplementary Information Required By The CDA

The financial ratios of the Cooperative Bank for the periods December 31, 2022 and 2021, are as follows:

Years Ended December 31,	2022	2021
Liquidity Ratios		
Quick ratios (cash + receivables / current liabilities)	1.82	1.61
Current ratios (current assets / current liabilities)	1.03	0.74
Profitability Ratios		
Gross income margin (gross income / gross revenue)	81.95%	81.10%
Net surplus margin (net surplus for the year / gross revenue)	10.32%	16.12%
Return on equity (net surplus after reserves / ave. share capital)	5.14%	8.17%
Return on fixed assets (net surplus for the year / ave. fixed assets)	25.99%	45.39%
Over-all profitability (net surplus for the year / gross income)	12.59%	19.88%
Solvency Ratios		
Debt to total assets ratio (total liabilities / total assets)	0.77	0.73
Debt to equity ratio (total liabilities / ave. share capital)	3.39	2.66

Note 14
Statutory Reserves

This account consists of the following:

December 31,	2022	2021
General Reserve Fund	₱81,324,362	₱77,479,454
Cooperative Education and Training Fund	1,205,437	2,170,393
Community Development Fund	9,556,164	9,632,069
Optional Fund	62,688,037	59,996,602
	₱154,774,000	₱149,278,518

The accounting of the movements of the accounts follows:

December 31, 2022	*Opening Balances*	*Dist. of Net Profit*	*Charges*	*Closing Balances*
General Reserve Fund	₱77,479,454	₱3,844,908	₱–	₱81,324,362
Coop. Education & Training Fund	2,170,393	1,922,454	(2,887,410)	1,205,437
Community Development Fund	9,632,069	1,153,471	(1,229,376)	9,556,164
Optional Fund	59,996,602	2,691,435	–	62,688,037
	₱149,278,518	₱9,612,268	(₱4,116,786)	₱154,774,000
December 31, 2021				
General Reserve Fund	₱71,884,459	₱5,594,995	₱	₱77,479,454
Coop. Education & Training Fund	2,791,774	2,797,497	(3,418,878)	2,170,393
Community Development Fund	12,967,885	1,678,499	(5,014,315)	9,632,069
Optional Fund	56,080,106	3,916,496	–	59,996,602
	₱143,724,224	₱13,987,487	(₱8,433,193)	₱149,278,518

The funds are not available for distribution to members but are used only for specific purposes for which they are recognized, as may be approved by the BOD and the General Assembly. The optional fund of the Bank is set aside for the acquisition of land and building.

The distribution of net profit for the years ended December 31, 2022, and 2021 is presented below.

Years Ended December 31,	2022	2021
General Reserve Fund (10%)	₱3,844,908	₱5,594,995
Cooperative Education and Training Fund (5%)	1,922,454	2,797,498
Community Development Fund (3%)	. 1,153,471	1,678,499
Optional Fund (7%)	2,691,435	3,916,496
Total for Statutory Reserves	9,612,268	13,987,488
CETF payable (5%)	1,922,454	2,797,497
Interest on share capital and patronage refund (70%)	25,523,448	39,164,968
	₱37,058,170	₱55,949,953

Declaration and Accrual of Dividends to Members

On June 29, 2022, the Cooperative Bank's Board of Directors approved the declaration of dividends to common shareholders amounting to ₱17,097,558 and dividends to Class C preferred shares amounting to ₱6,596. No dividend was declared in 2021.

Outstanding dividend payable at the end of the year amounted to ₱28,059,894 in 2022 and ₱17,303,228 in 2021. (See Note 11.)

Note 15
Details of Loan Servicing Fees and Other Income

Years Ended December 31,	2022	2021
Fees and collection income	₱125,802,101	₱101,809,171
Gain on sale/derecognition	4,876,756	636,396
Excess notarial	2,282,359	–
Interest income on post-employment benefit *(note 12)*	124,115	–
Recovery on charged-off assets	96,093	949,415
Others	6,360,900	2,948,169
	₱139,542,324	₱106,343,151

Note 16
Details of Other Operating Expenses

Years Ended December 31,	2022	2021
Compensation and fringe benefits (See table below.)	₱213,628,194	₱180,118,575
Depreciation *(Notes 6)*	18,764,906	15,716,843
Security, messengerial and janitorial services	12,524,702	11,066,483
Taxes and licenses (*Note 25*)	11,336,203	11,027,873
Promotions	9,584,495	8,423,287
Communication, light and water	7,908,352	6,941,503
Representation	7,504,933	5,780,877
Insurance	7,315,211	5,220,894
Travel and transportation	6,945,690	4,063,365
Management and other professional fees	5,119,428	3,297,797

(Carried Forward.)

(Brought Forward.)

Years Ended December 31,	2022	2021
Fuel, oil and lubricants	4,873,052	3,025,725
Stationery and supplies used	4,077,914	3,639,913
Rent *(Note 6)*	3,600,728	1,117,623
Repairs and maintenance	3,087,499	3,782,507
Banking fees and charges	268,640	4,471,466
Interest expense on post-employment obligation *(note 12)*	–	330,153
Other operating expenses	8,926,715	2,624,809
	₱325,466,662	₱270,649,693

Details of Compensation and Fringe Benefits

Years Ended December 31,	2022	2021
Salaries, wages and bonuses	₱94,307,031	₱82,708,578
Employees benefits	105,790,821	85,514,975
SSS, HDMF, Philhealth Premium Expense, Pag-Ibig Contribution	9,705,582	8,110,834
Retirement benefit contributions *(Note 12)*	3,824,760	3,784,188
	₱213,628,194	₱180,118,575

Note 17
Income Tax

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises" or "CREATE", passed into law on March 27, 2021. Provisions under the CREATE Act include reductions in RCIT rate from 30% to 25% for large corporations and 20% for small and medium corporations with net taxable income not exceeding ₱5,000,000 and total assets not exceeding ₱100,000,000 (excluding land) effective July 1, 2020. Provided further, the taxpayer's allowable deduction for interest expense shall be reduced by an amount equivalent to twenty percent (20%) of interest income subjected to final tax. However, if the final withholding tax rate on interest income of 20% will be adjusted in the future, the interest expense reduction rate shall be adjusted accordingly.

Income Tax on Business Transactions with Non-Members

The Cooperative Bank having accumulated reserves and undivided surplus of more than ₱10 million are taxed on transactions with non-members. The tax base for all cooperatives liable to income tax shall be the net surplus arising from the business transactions with non-members after deducting the amounts for statutory reserves as provided for in the Cooperative Code and Joint Rules and Regulation Implementing Articles 60,61 and 144 of RA 9520. Following tables show the computation of the Cooperative's income tax due:

Regular Corporate Income Tax (RCIT)

Years Ended December 31,	2022	2021
Net surplus for distribution	₱38,449,075	₱62,718,056
Surplus allocated to statutory reserves (*Note 14*)		
General reserve fund	(3,844,908)	(5,594,995)
Cooperative education and training fund & CETF Payable	(3,844,908)	(5,594,995)
Optional fund	(2,691,435)	(3,916,496)
Community development fund	(1,153,471)	(1,678,499)
Interest on share capital and patronage refund *(Note 14)*	26,914,353	45,933,071

(Carried Forward.)

(Brought Forward.)

Years Ended December 31,	2022	2021
Interest on share capital and patronage refund *(Note 14)*	26,914,353	45,933,071
Add/(deduct) reconciling items		
Allocated for interest on share capital to members *(Note 14)*	(18,292,979)	(39,840,450)
Interest income from deposits with other banks	(184,688)	(325,899)
Non-deductible interest expense (tax arbitrage)	46,172	52,144
Non-deductible representation expense	668,980	413,821
Nontaxable interest income on loans (accruals)	(3,588,217)	(3,340,343)
Non-deductible provision for probable losses *(Note 5)*	18,625,506	18,062,256
Write off of allowance for ECL *(Note 5)*	(1,831,563)	–
Non-deductible depreciation on ROU asset	511,090	495,187
Non-deductible interest expense on lease liability *(Note 6)*	24,302	30,570
Deductible rental payments for finance leases *(Note 6)*	(526,148)	(518,760)
Non-deductible retirement expense *(Note 12)*	2,590,451	4,114,341
Deductible contributions to plan asset *(Note 12)*	(2,590,451)	(4,114,341)
Deductible amortization of excess of contribution over CSC	(1,505,914)	(1,056,459)
Total Taxable Income	20,860,894	19,905,138
Tax Rate	25%	25%
Tax Due	₱5,215,224	₱4,976,284

As Reported in Profit or Loss

Years Ended December 31,	2022	2021
Regular corporate income tax	₱9,612,269	₱15,679,514
Tax effects of:		
Non-taxable transactions with members and statutory reserves	(7,456,925)	(14,156,360)
Non-taxable income	(943,226)	(800,070)
Non-deductible expense	178,788	–
Effect of change in income tax rate (See paragraph below.)	–	8,331,468
Origination and reversal of temporary differences	3,824,318	(4,078,268)
Current Tax Expense	₱5,215,224	₱4,976,284

Movements of Deferred Tax Assets

Years Ended December 31,	2022	2021
Opening balances	₱45,072,004	₱49,988,795
Non-deductible provision for probable losses *(Note 5)*	4,656,377	4,515,564
Write-off of allowance for expected credit losses *(Note 5)*	(457,892)	–
Retirement benefits temporary differences *(Note 12)*	(376,479)	(264,115)
PFRS 16 temporary differences	2,310	1,751
Adjustment for CREATE Act impact (See paragraph below.)	–	(8,331,468)
Remeasurement gain/loss *(Note 12)*	(650,647)	(838,523)
Closing balances	₱48,245,673	₱45,072,004

Adjustment for CREATE Act Impact

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25% from the 30% rate used to set-up the tax benefits. This resulted in a decline in the recognized deferred tax asset in 2020 by ₱8,331,468 recognized as expense in the 2021 statement of profit or loss.

Note 18
Earnings Per Share

Years Ended December 31,	2022	2021
Interest on share capital and patronage refund attributable to		
Common and preferred shares	₱25,940,719	₱39,164,968
Preferred shares	(6,596)	–
Net Available for Common Shares	25,934,123	39,164,968
Weighted Average Number of Ordinary Shares	73,857	67,429
Basic Earnings per Share	₱351	₱581

As of December 31, 2022 and 2021, the Cooperative Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

Note 19
Related Party Transactions

In the ordinary course of trade or business, the Cooperative Bank has transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The significant related party transactions are summarized as follows:

(a) In the ordinary course of business, the Cooperative Bank has loan transactions with DOSRI. Under the Cooperative Bank's policy, these loans and other transactions are to be 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 aggregate amount of loans to directors, officers, stockholders and related interest (DOSRI) should not exceed the total capital funds or 15% of the total loan portfolio of the Cooperative Bank, whichever is lower. In addition, the amount of direct credit accommodation to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Cooperative Bank.

At the end of 2022 and 2021, the following are the information related to DOSRI:

December 31,	2022	2021
Total Outstanding DOSRI loans *(Note 5)*	₱26,902,821	₱23,771,758
Percent of DOSRI loans to total loans	1.07%	1.17%
Percent of unsecured DOSRI loans to total DOSRI loans	70.33%	66.69%
Percent of past-due DOSRI loans to total DOSRI loans	3.28%	9.88%
Percent of non-performing DOSRI loans to total DOSRI loans	2.32%	9.88%
Total Outstanding DOSRI deposits *(Note 9)*	₱12,248,829	₱13,214,148
Percent of DOSRI deposit to total savings deposits	1.32%	1.62%

(b) The key management compensation consists of the following:

Years Ended December 31,	2022	2021
Salaries and wages	₱16,578,823	₱13,525,254
Employees' benefits	18,182,095	13,358,453
	₱34,760,918	₱26,883,707

Note 20
Fair Value Measurements

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed
The following table summarizes the fair value hierarchy of the Cooperative Bank's financial assets liabilities which are not measured at fair value in the 2022 and 2021 statements of financial position but for which fair value is disclosed.

December 31, 2022	*Level 1*	*Level 2*	*Level 3*	***Total***
Financial assets				
Cash and cash equivalents *(Note 4)*	₱751,441,133	₱–	₱–	₱751,441,133
Loans and receivables – net *(Note 5)*	–	–	2,246,599,499	2,246,599,499
FA at FVOCI *(Note 8)*	1,156,263	–	–	1,156,263
FA at Amortized Cost *(Note 8)*	606,312	–	–	606,312
	₱753,203,708	₱–	₱2,246,599,499	₱2,999,803,207
Financial liabilities				
Deposit liabilities *(Note 9)*	₱–	₱–	₱1,708,044,059	₱1,708,044,059
Bills payable *(Note 10)*	–	612,729,040	–	612,729,040
Trade and other payables *(Note 11)*	–	–	152,467,600	152,467,600
	₱–	₱612,729,040	₱1,860,511,659	₱2,473,240,699
December 31, 2021				
Financial assets				
Cash and cash equivalents *(Note 4)*	₱579,170,317	₱–	₱–	₱579,170,317
Loans and receivables – net *(Note 5)*	–	–	1,829,105,691	1,829,105,691
FA at FVOCI *(Note 8)*	156,263	–	–	156,263
FA at Amortized Cost *(Note 8)*	606,312	–	–	606,312
	₱579,932,892	₱–	₱1,829,105,691	₱2,409,038,583
Financial liabilities				
Deposit liabilities *(Note 9)*	₱–	₱–	₱1,451,654,590	₱1,451,654,590
Bills payable (*Note 10)*	–	299,709,710	–	299,709,710
Other liabilities *(Note 11)*	–	–	133,438,827	133,438,827
	₱–	₱299,709,710	₱1,528,953,877	₱1,884,803,127

For financial assets with fair values included in Level 1, management considers that the carrying amounts of financial instruments approximate their fair values. The fair values of the financial assets and liabilities included in Level 3 above which are not traded in an active market are 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.

Fair Value Disclosures for Investment Properties Carried at Cost
The fair value of investment properties, which consist of parcels of land, amounted to ₱6,853,232 and ₱6,754,438 as of December 31, 2022, and 2021, respectively. The fair values were determined though appraisals, which were conducted by an in-house appraiser of the Cooperative Bank, except for the appraisals of investment properties with carrying amount exceeding ₱5,000,000, which was conducted by an independent appraiser acceptable to the BSP. The fair value disclosed for the Cooperative Bank's investment properties is under Level 2. The Level 2 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 proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

Note 21
Risk Management Objectives and Policies

The Cooperative Bank is exposed to various risks in relation to financial instruments. The Cooperative Bank's principal financial instruments are its cash and cash equivalents (Note 4), loans and receivables (Note 5), financial asset at FVTOCI restricted funds and some items of its other assets (Note 8), deposit liabilities (Note 9), bills payable (Note 10), and other liabilities (Note 11). The main types of risks are credit and concentration risks, investments risks, market risk and liquidity risk. The Cooperative Bank is not exposed to foreign currency risk since it has no foreign currency deposits and foreign transactions. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Cooperative Bank's financial performance and financial position. The Cooperative Bank actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

Risk Management Structure
The Board of Directors has overall responsibilities for the Cooperative Bank's financial risk management, which includes the establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management of the Cooperative Bank is to minimize the adverse impact of financial risks on the Cooperative Bank's financial performance and financial position.

Credit and Concentration Risks/Investment Risk
Credit risk refers to the risk that the counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Cooperative Bank. The Cooperative Bank is exposed to credit risk from financial assets including its cash held in banks, loans and discounts and investments in financial instruments. The credit risk in respect of cash balances held with other banks are managed via diversification of bank deposits and are only with major reputable financial institutions and are regularly monitored. For loans and discounts, the Cooperative Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit. The Cooperative Bank manages the level of credit risk by actively monitoring all its receivables to avoid significant delinquency.

The investment risk related to investments in financial instruments (or capital-loss risk) represents the exposure to loss of all or part of the capital invested resulting from cash flows from invested assets being less than the cash flows required to meet the obligations of maturing deposits and the necessary return on investments. To maintain an adequate yield to match the interest necessary to support future policy liabilities, the Board of Directors is investing mostly on Government financial instruments which are fairly safe investments.

The Cooperative Bank deals only with creditworthy counterparties duly approved by the Board of Directors. Its maximum exposure to credit risk for the components of the statements of financial position is the carrying amounts as shown in the following table:

December 31, 2022	2022	2021
Cash and cash equivalents *(Note 4)*	₱751,441,133	₱579,170,317
Loans and receivables – net *(Note 5)*	2,246,599,499	1,829,105,691
FA at FVOCI *(Note 8)*	1,156,263	156,263
FA at Amortized Cost *(Note 8)*	606,312	606,312
	₱2,999,803,207	₱2,409,038,583

Loans and Receivables
In respect of loans and receivables, the Cooperative Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical

information about customer default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, these are normally actively disposed of by the Cooperative Bank.

The Cooperative Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of the Bank's net worth.

The table below shows exposure to credit risk of loans and receivables (gross) based on the Cooperative Bank's rating system as of December 31, 2022, and 2021 and the related allowance for impairment.

December 31, 2022	*Level 1*	*Level 2*	*Level 3*	*Total*
Pass	₱2,112,054,463	₱–	₱–	₱2,112,054,463
Especially Mentioned	–	45,711,322	–	45,711,322
Substandard	–	21,980,121	8,100,224	30,080,345
Doubtful	–	–	14,908,335	14,908,335
Loss	–	–	315,526,231	315,526,231
	2,112,054,463	67,691,443	338,534,790	2,518,280,696
Allowance for impairment	(16,247,480)	(3,977,624)	(251,456,093)	(271,681,197)
Carrying Amount	₱2,095,666,983	₱63,713,819	₱87,078,697	₱2,246,599,499
December 31, 2021				
Unclassified	₱1,584,441,510	₱–	₱-	₱1,584,441,510
Especially Mentioned	–	23,501,915	–	23,501,915
Substandard	–	53,316,922	15,568,183	68,885,105
Doubtful	–	–	23,800,345	23,800,345
Loss	–	–	337,022,891	337,022,891
	1,584,241,010	76,818,837	376,391,419	2,037,651,766
Allowance for impairment	(9,778,016)	(5,651,563)	(193,116,496)	(208,546,075)
Carrying Amount	₱1,574,663,494	₱71,167,274	₱183,274,923	₱1,829,105,691

The credit grades used by the Cooperative Bank in evaluating the credit quality of its loans and receivables are the following:

(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) *Loans Especially Mentioned*
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 Cooperative Bank.

(c) *Substandard*
Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize Payment/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.

(d) *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.

(e) *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.

The Cooperative Bank holds collateral against loans and receivables from borrowers in order to mitigate risk. The collateral is usually in the form of a real estate mortgage.

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

The Cooperative Bank writes off loans and receivables, 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 Cooperative Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of loans and receivables to be written off. The Cooperative Bank still has, however, enforceable the right to receive payment even if the loans and receivables have been written off.

Market Risks
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. Market risk is also the possibility that changes in equity prices or interest rates will adversely affect the value of the Cooperative Bank’s assets, liabilities or expected future cash flows.

The Cooperative Bank has no exposure arising from complex investments since it is not engaging in high-risk investments, forward contracts, hedging, and the like, whether local or foreign transactions.

Liquidity Risks
The liquidity risk is that the Cooperative Bank might be unable to meet its obligations as they become due without incurring unacceptable losses or costs. The Cooperative Bank’s objectives to manage its liquidity profile are a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

The Cooperative Bank manages its liquidity by carefully monitoring its scheduled servicing payments for financial liabilities as well as its cash flows due on its day–to–day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that the available cash position is expected to be sufficient over the lookout period.

The Cooperative Bank considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and loans and discounts. The Cooperative Bank's existing cash resources and receivables (see tables below) significantly exceed the current cash outflow requirements. Cash flows from loans and discounts are all generally contractually due within six months to one year and those exceeding this period are expected to not materially affect its cash position.

Maturity Analysis of Assets and Liabilities

December 31, 2022	*Within One Year*	*Beyond One Year*	*Beyond five years*	*Total*
Financial Assets				
Cash and cash equivalents *(Note 4)*	₱751,441,133	₱–	₱–	₱751,441,133
Loans and receivables – net *(Note 5)*	947,271,969	1,296,530,725	2,796,805	2,246,599,499
FA at FVOCI (Note 8)	–	1,156,263	–	1,156,263
FA at Amortized Cost (Note 8)	–	606,312	–	606,312
	1,698,713,102	1,298,293,300	2,796,805	2,999,803,207
Financial Liabilities				
Deposit liabilities *(Note 9)*	1,494,635,370	160,250,427	53,158,262	1,708,044,059
Bills payable	–	612,729,040	–	612,729,040
Other liabilities	152,467,600	–	–	152,467,600
	1,647,102,970	772,979,467	53,158,262	2,473,240,699
Cumulative total positive (neg) gap	₱51,610,132	₱525,313,833	(₱50,361,457)	₱526,562,508

December 31, 2022	*Within One Year*	*Beyond One Year*	*Beyond five years*	*Total*
Financial Assets				
Cash and cash equivalents *(Note 4)*	₱579,170,317	₱–	₱–	₱579,170,317
Loans and receivables – net *(Note 5)*	522,562,145	1,301,595,596	4,947,950	1,829,105,691
FA at FVOCI *(Note 8)*	–	156,263	–	156,263
FA at Amortized Cost *(Note 8)*	–	606,312	–	606,312
	1,101,732,462	1,302,358,171	4,947,950	2,409,038,583
Financial Liabilities				
Deposit liabilities *(Note 9)*	1,289,798,171	161,856,419	–	1,451,654,590
Bills payable	73,845,217	225,864,493	–	299,709,710
Accrued expenses/ other liabilities	133,438,827	–	–	133,438,827
	1,497,082,215	387,720,912	–	1,884,803,127
Cumulative total positive (neg) gap	(₱395,349,753)	₱914,637,259	(₱4,947,950)	(₱524,235,456)

Note 22
Commitments and Contingencies

There are recognized provisions in the statements of financial position that arise in the normal course of business operations. There may also have been commitments and contingencies that arose in the normal course of business that were not reflected in the Cooperative Bank's financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies, and these losses, if any, will not materially affect its financial statements. During 2022 and 2021, there were no contingencies and commitments arising from off-balance sheet items that were recognized by the Cooperative Bank.

Note 23
COVID – 19 Pandemic Situational Report, January 2023

COVID-19 cases throughout the country started declining in February 2022, and by May 2022, the health department noted that the country was at 'minimal-risk case classification' with an average of only 159 cases per day recorded from May 3 to 9. As of early June 2022, 69.4 million Filipinos have been fully vaccinated, while 14.3 million individuals received their booster shots. In August 2022, Filipino public schools reopened for in person learning for the first time in two years. *From Wikipedia*

'The trend of reported COVID-19 cases in the Philippines is decreasing. On 9–15 January 2023, 2,934 2.6 cases per 100,000 population were reported and this is 6.0% lower than cases reported on 2–8 January [3,125 cases (2.8 cases per 100,000 population)]. On 26 December 2022 - 1 January 2023, there were 3,458 cases; and on 19–25 December, there were 5,690 cases. Among the 17 regions, National Capital Region (947 cases), Region IV-A: CALABARZON (467 cases), and Region II: Cagayan Valley (240 cases) recorded the highest case counts on 9–15 January 2023.' *Philippines Coronavirus Disease 2019 (COVID-19) Situation Report #119, 16 Jan 2023, Department of Health on 15 January 2023.*

At the time of the release of this report, the COVID-19 Pandemic has begun to wane in the Philippines. The Philippine authorities projected, in December 2022, that the economy will surge to a 7.2% growth in 2022 before tapering off to an average of 5.7% percent growth in 2023 [Philippines Economic Update (PEU) by World Bank].

The Cooperative Bank's management has determined that the COVID-19 Pandemic has not significantly affected its operations. The Board of Directors has determined that there have been no adjustments necessary on its 2021 financial statements related to the COVID-19 Pandemic.

Note 24
Authorization of Financial Statements

The Cooperative Bank's financial statements as of and for the year ended December 31, 2022, were presented to the Board of Directors on March 20, 2023 and subsequently approved by the Executive Committee of the Board of Directors on March 28, 2023. The audited financial statements were authorized for issue by the Executive Committee of the Board of Directors on April 17, 2023.

Note 25
Supplementary Information required by Revenue Regulations (RR) No.15-2010

On December 28, 2010, RR No. 15-2020 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax return. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes and licenses fees paid or accrued during the year in addition to what is mandated by PFRS. Below is the additional information required by RR No. 15-0210; this information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

a. *Withholding Tax*

Years Ended December 31,	2022
Final withholding tax on Interest	₱7,636,017
Compensation	7,951,958
Expanded	2,285,958
Total	₱17,873,933

b. *Documentary Stamp Tax*
As a Cooperative Bank, it is entitled to tax exemptions and incentives with its transactions with members which include DST, provided, however, that the other party to the taxable document or transaction who is not exempt shall be the one directly liable for the tax (R.A. No. 9520).

The DST shouldered by the Cooperative Bank amounting to ₱1,796,612, are recorded as an expense and is included in the taxes and licenses account under Other Expense in the 2022 statement of profit or loss.

c. All other local and national taxes
All other local and national taxes paid for the year ended December 31, 2022 consists of:

Years Ended December 31,	2022
Gross Receipt Tax	₱6,261,417
Municipal permits and licenses	417,486
Real Property Tax	347,301
Miscellaneous	200,429
Total	₱7,226,633

d. Tax Cases
The Cooperative Bank has no outstanding tax cases in any other court, as of December 2022.

SUPPLEMENTARY SCHEDULE TO THE FINANCIAL STATEMENTS

Annex I	Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP)

SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP AND CDA

Cooperative bank of Cotabato

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

(a) *Selected Financial Performance Indicators*

Years Ended December 31,	2022	2021
Return on average equity* *(Net surplus/Average total capital accounts)*	5.14%	8.17%
Return on average assets*: *(Net surplus/Average total resources)*	1.28%	2.23%
Net interest margin*: *(Net interest income/Average interest earning resources)*	11.42%	11.22%
Risk-Based Capital Adequacy Ratio	18.17%	24.53%

** Average asset, capital, and interest-earning assets are computed as the simple average of outstanding balance of assets, capital, and interest-earning assets at December 31, 2022 and December 31, 2021. (2 data points)*

(b) *Capital Instruments Issued*

As of December 31, 2022 and 2021, the Cooperative Bank has only two classes of share capital, which are ordinary (common) and preference (preferred) shares.

December 31,	2022	2021
Common share (CET 1)	₱73,714,159	₱69,664,159
Preferred share (AT 1)	3,441,000	3,441,000
	₱77,155,159	₱73,105,159

(c) *Significant Credit Exposures for Loans*

The Cooperative Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL below are disclosed in Note 5.

December 31,	2022	%	2021	%
Agriculture, forestry and fishing	₱732,310,760	29.26%	₱815,586,367	40.26%
Wholesale and retail trade	574,071,048	22.94%	306,230,074	15.12%
Information and communication	397,653,123	15.89%	478,472,383	23.62%
Human health and social work activities	193,179,860	7.72%	179,950,802	8.88%
Real estate activities	101,837,904	4.07%	88,318,306	4.36%
Accommodation and food storage	69,272,537	2.77%	49,069,194	2.42%
Financial and insurance activities	40,268,406	1.61%	36,931,801	1.82%
Construction	76,955,882	3.07%	24,395,338	1.20%
Manufacturing	69,824,506	2.79%	13,038,311	0.64%
Transportation and storage	16,549,320	0.66%	3,847,822	0.19%
Other service activities	230,876,162	9.22%	29,934,761	1.48%
	₱2,502,799,508	100%	₱2,025,775,159	100%

(d) *Breakdown of Loans*

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

Breakdown by Type of Security

December 31,	2022	%	2021	%
Secured by real estate	₱360,546,554	14	₱165,936,930	8
Secured by chattel	9,797,658	0.4	11,011,468	1
Other security	41,665,443	1.6	36,119,471	2
	412,009,655	16	213,067,869	11
Unsecured loans	2,090,789,853	84	1,812,707,290	89
	₱2,502,799,508	100	₱2,025,775,159	100

Breakdown As to Status of Loans

December 31, 2022	*Performing*	%	*Non-Performing*	%	*Total*	%
Individual consumption	₱1,146,332,722	53	₱238,450,692	69	₱1,384,783,414	55
Agricultural	493,108,614	23	48,379,438	14	541,488,052	22
Commercial	266,678,151	12	59,783,301	17	326,461,452	13
Others	249,142,529	12	924,061	0	250,066,590	10
	₱2,155,262,016	100	₱347,537,492	100	₱2,502,799,508	100
December 31, 2021						
Individual consumption	₱1,035,587,497	62	₱216,413,037	60	₱1,252,000,533	62
Agricultural	312,230,119	19	94,192,069	26	406,422,188	20
Commercial	188,787,620	11	48,683,640	13	237,471,260	12
Others	126,178,525	8	3,702,653	1	129,881,178	6
	₱1,662,783,761	100	₱362,991,399	100	₱2,025,775,159	100

The non-performing loans as defined under Section 304 of the MORB amounted to ₱347,537,492 in 2022 and ₱362,991,399 in 2021.

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

The Cooperative Bank reported no restructured loans in 2022 and in 2021.

Interest income recognized on impaired loans and receivables amounted to ₱61,143,091 and ₱52,633,625 in 2022 and 2021, respectively.

(e) *Information on Related Party Loans*
In the ordinary course of business, the Cooperative Bank has loan transactions with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Cooperative Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Cooperative Bank.

The following table shows information on related party loans as reported to the BSP:

December 31,	2022	2021
Total Outstanding DOSRI loans *(Note 5)*	₱26,902,821	₱23,771,758
Percent of DOSRI loans to total loans	1.07%	1.17%
Percent of unsecured DOSRI loans to total DOSRI loans	70.33%	66.69%
Percent of past-due DOSRI loans to total DOSRI loans	3.28%	9.88%
Percent of non-performing DOSRI loans to total DOSRI loans	2.32%	9.88%
Total Outstanding DOSRI deposits *(Note 9)*	₱12,248,829	₱13,214,148
Percent of DOSRI deposit to total savings deposits	1.32%	1.62%

(f) *Secured Liabilities and Assets Pledged as Security*
Assets pledged by the Cooperative Bank as security for liabilities are shown below.

Years Ended December 31,	2022	2021
Aggregate amount of secured liabilities	₱207,312,037	₱226,556,272
Aggregate amount of resources pledged as security	₱345,520,062	₱383,437,897

(g) *Contingencies and Commitments Arising from Off-balance Sheet Items*
During 2022 and 2021, there were no contingencies and commitments arising from off-balance sheet items that were recognized by the Cooperative Bank.