Alas Oplas & Co., CPAs

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Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

To the Members and the Board of Trustees
FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.
FASBLAI Bldg., V. Templo Avenue, Brgy. Banaybanay
Concepcion, Lipa City, Batangas

Qualified Opinion

We have audited the financial statements of **FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.** (the "Association") which comprise the statement of financial position as of December 31, 2022, and the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Qualified Opinion

As disclosed in Note 2 to the financial statements, the Association did not adopt PFRS 9, Financial Instruments, which provides new guidelines in the classification and measurement of financial instruments and introduces a forward-looking expected credit loss (ECL) model on impairment of debt financial assets not classified as at fair value through profit or loss and loan commitments and financial guarantee contracts. As of December 31, 2022, for classification and measurement, the Association retained the requirements based on PAS 39, Financial Instruments: Recognition and Measurement. For impairment, the Association adopted the provisions of Appendix S-8 of Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) that provides guidelines for provisioning based on number of days past due, collaterals, and type of loan, which are inconsistent with the requirements of the new standard. As a result, any adjustments related to surplus, allowance for credit losses and related deferred tax assets as of December 31, 2022 have not been determined due to certain limitations.

We conducted our audits 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 Association 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 qualified opinion.

Other Matter

The financial statements of the Company as of and for the year ended December 31, 2021 were audited by another auditor who expressed a qualified opinion in their report dated April 27, 2022 due to non-adoption of PFRS 9 and continuing to recognize and measure financial instrument using Philippine Accounting Standard (PAS) 39 and Bangko Sentral ng Pilipinas (BSP) Circular No. 1046.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association 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.

Alas Oplas & Co., CPAs

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 Revenue Regulations Nos. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information Required under BSP Circular No. 1075 in Note 32, Revenue Regulations Nos. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 31 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

By:

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

April 25, 2023
Makati City, Philippines

FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.
(Formerly: Fernando Air Base Savings and Loans Association, Inc.)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(With Comparative Figures for 2021)
In Philippine Peso

	Notes	2022	2021
ASSETS			
Cash	8	**286,268,649**	267,865,103
Loans and other receivables – net	9	**2,185,438,890**	2,106,298,603
Property and equipment – net	10	**21,590,659**	22,047,238
Assets held for sale	11	**2,062,000**	2,062,000
Other assets	12	**2,292,850**	681,136
TOTAL ASSETS		**2,497,653,048**	2,398,954,080
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Deposit liabilities	13	**1,209,299,478**	1,063,804,086
Bills payable	14	**–**	100,000,000
Accrued and other payables	15	**61,570,627**	66,378,732
Retirement benefit obligation	19	**13,860,036**	11,563,249
Dividends payable	23	**27,782,085**	29,215,660
Income tax payable		**6,242**	9,451
Total Liabilities		**1,312,518,468**	1,270,971,178
MEMBERS' EQUITY			
Capital contribution	21	**804,635,731**	783,567,010
Surplus reserves	22	**86,183,402**	91,095,247
Surplus free	23	**294,315,447**	253,320,645
Total Members' Equity		**1,185,134,580**	1,127,982,902
TOTAL LIABILITIES AND MEMBERS' EQUITY		**2,497,653,048**	2,398,954,080

See Notes to Financial Statements.

FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.
(Formerly: Fernando Air Base Savings and Loans Association, Inc.)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Figures for 2021)
In Philippine Peso

	Notes	2022	2021
INTEREST INCOME			
Loans receivable	9	**250,569,492**	239,057,253
Bank deposits	8	**1,429,454**	552,946
		251,998,946	239,610,199
INTEREST EXPENSE			
Deposit liabilities	13	**(48,203,145)**	(44,049,942)
Bills payable	14	**(2,949,225)**	(5,338,056)
		(51,152,370)	(49,387,998)
NET INTEREST INCOME		**200,846,576**	190,222,201
PROVISION FOR CREDIT LOSSES	9	**(9,694,857)**	(12,059,956)
NET INTEREST INCOME AFTER PROVISION		**191,151,719**	178,162,245
OTHER INCOME	17	**64,265,717**	54,064,348
		255,417,436	232,226,593
OPERATING EXPENSES	18	**(84,904,198)**	(77,195,032)
INCOME BEFORE TAX		**170,513,238**	155,031,561
INCOME TAX EXPENSE	20	**(37,397)**	(32,320)
INCOME FOR THE YEAR		**170,475,841**	154,999,241
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME		**170,475,841**	154,999,241

See Notes to Financial Statements.

FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.
(Formerly: Fernando Air Base Savings and Loans Association, Inc.)
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Figures for 2021)
In Philippine Peso

	Capital contribution (Note 21)	Surplus reserves (Note 22)	Surplus free (Note 23)	Total members' equity
Balance at December 31, 2020	**781,696,943**	**82,839,612**	**196,996,102**	**1,061,532,657**
Additional capital contributions	122,203,756	–	–	122,203,756
Withdrawal of capital contribution	(120,333,689)	–	–	(120,333,689)
Appropriation	–	8,287,706	(8,287,706)	–
Utilization	–	(32,970)	32,970	–
Dividend declaration	–	–	(93,040,922)	(93,040,922)
Adjustments	–	899	2,620,960	2,621,859
Income for the year	–	–	154,999,241	154,999,241
Balance at December 31, 2021	**783,567,010**	**91,095,247**	**253,320,645**	**1,127,982,902**
Additional capital contributions	147,567,124	–	–	147,567,124
Withdrawal of capital contribution	(126,498,403)	–	–	(126,498,403)
Appropriation	–	8,654,070	(8,654,070)	–
Utilization	–	–	–	–
Interest and dividends earned by terminated/deceased members	–	–	967,048	967,048
Dividend declaration	–	–	(111,927,728)	(111,927,728)
Adjustments	–	(13,565,915)	(9,866,289)	(23,432,204)
Income for the year	–	–	170,475,841	170,475,841
Balance at December 31, 2022	**804,635,731**	**86,183,402**	**294,315,447**	**1,185,134,580**

FERNANDO AIR BASE SAVINGS AND LOAN ASSOCIATION (FABSLAI), INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Figures for 2021)
In Philippine Peso

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		**170,513,238**	155,031,561
Adjustments for:			
Provisions for credit losses	9	**9,694,857**	12,059,956
Retirement benefit expense	19,18	**4,496,787**	1,614,158
Interest expense on bills payable	14	**2,949,225**	5,338,056
Depreciation	10,18	**1,886,585**	1,835,878
Interest Income on bank deposits	8	**(1,429,454)**	(552,946)
Interest and dividends credited back		**985,380**	2,653,930
Gain on disposal of property and equipment	17	**–**	(7,310)
Operating cash flows before working capital changes		**189,096,618**	177,973,283
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans receivable		**(93,361,697)**	(41,242,605)
Advances to members		**(9,042,364)**	(620,672)
Other assets		**(1,611,714)**	2,318,606
Increase in:			
Deposit liabilities		**135,610,774**	61,160,011
Accrued and other payables		**(4,747,424)**	(4,022,452)
Cash generated from operations		**215,944,193**	195,566,171
Interest paid		**(2,949,225)**	(5,338,056)
Benefits paid	19	**(2,200,000)**	(2,754,800)
Interest received		**1,429,454**	552,945
Income tax paid		**(40,606)**	(31,563)
Net cash generated from operating activities		**212,183,816**	187,994,697
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	10	**(1,490,688)**	(1,686,147)
Proceeds from sale of property and equipment	10	**–**	7,316
Net cash used in investing activities		**(1,490,688)**	(1,678,831)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional capital contribution	21	**147,567,124**	122,203,756
Withdrawal of capital contribution	21	**(126,498,403)**	(120,333,689)
Dividends paid	23	**(113,358,303)**	(91,437,164)
Payments made on bills payable	14	**(100,000,000)**	(170,000,000)
Proceeds from bills payable	14	**–**	100,000,000
Net cash used in financing activities		**(192,289,582)**	(159,567,097)
NET INCREASE IN CASH		**18,403,546**	26,748,769
CASH AT BEGINNING OF YEAR		**267,865,103**	241,116,334
CASH AT END OF YEAR	8	**286,268,649**	267,865,103

See Notes to Financial Statements.