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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Banco Mexico, Inc. (A Rural Bank)
GSO National Road, Parian
Mexico, Pampanga

Report on the Financial Statements

Qualified Opinion

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

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial statements present fairly, in all material aspects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Qualified Opinion

The Bank has not yet adopted the requirements on loan loss provisioning as prescribed under PFRS 9, *Financial Instruments*, which became effective on January 1, 2018. PFRS 9 requires the Bank to recognize lifetime expected credit losses for all financial assets for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions. As at December 31, 2022 and 2021, the Bank's allowance for credit and impairment losses amounting to ₱39.0 million and ₱36.4 million, respectively, for its loans and receivables as disclosed in Note 8 to the financial statements is determined in accordance with the loan loss provisioning guidelines by the Bangko Sentral ng Pilipinas (BSP). In the absence of an expected credit loss model supported by detailed analyses and relevant data, we were unable to obtain sufficient appropriate audit evidence to assess the adequacy of the said allowance for credit and impairment losses as at December 31, 2022 and 2021 in accordance with PFRS 9.

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

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

Reyes Tacandong & Co. is a member of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, and practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

Report on the Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, *Amendments to Regulations on Financial Audit of Banks*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 20 to financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of the Banco Mexico, Inc. (A Rural Bank). The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

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Partner
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Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 27455-SEC Group A
Issued January 28, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-005-2022
Valid until October 16, 2025
PTR No. 9564558
Issued January 3, 2023, Makati City

April 27, 2023
Makati City, Metro Manila

Banco Mexico, Inc. (A Rural Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2022**	2021
ASSETS			
Cash and other cash items	7	**₱5,431,503**	₱6,482,615
Due from Bangko Sentral ng Pilipinas (BSP)	7	**7,774,192**	7,195,150
Due from other banks	7	**158,603,188**	138,454,581
Restricted cash	7	**16,450,443**	–
Investment securities	9	**152,044,000**	142,044,000
Loans and receivables	8	**116,502,387**	123,593,468
Investment properties	10	**46,590,815**	26,523,757
Property and equipment	11	**3,173,605**	4,248,514
Net deferred tax assets	19	**2,644,944**	3,955,159
Other assets		**3,152,229**	3,047,636
		₱512,367,306	₱455,544,880

LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	12	**₱389,565,278**	₱338,615,673
Due to Philippine Deposit Insurance Corporation (PDIC)	16	**56,100,000**	56,100,000
Deposits for future stock subscription	6	**5,372,400**	5,372,400
Lease liabilities	16	**1,734,553**	2,465,200
Income tax payable		**–**	190,452
Other liabilities	13	**4,144,384**	4,480,986
Total Liabilities		**456,916,615**	407,224,711
Equity			
Capital stock:	6		
Common		**50,000,000**	50,000,000
Redeemable preferred		**11,405,000**	11,405,000
Deficit		**(5,954,309)**	(13,084,831)
Total Equity		**55,450,691**	48,320,169
		₱512,367,306	₱455,544,880

See accompanying Notes to Financial Statements.

Banco Mexico, Inc. (A Rural Bank)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2022	2021
INTEREST INCOME ON:			
Loans and receivables	8	**₱15,185,845**	₱13,016,282
Investment securities	9	**2,579,656**	2,006,346
Due from other banks	7	**694,433**	631,449
		18,459,934	15,654,077
INTEREST EXPENSE ON:			
Deposit liabilities	12	**2,300,548**	3,206,750
Due to PDIC	16	**985,576**	1,025,456
		3,286,124	4,232,206
NET INTEREST INCOME		**15,173,810**	11,421,871
OPERATING EXPENSES	17	**(16,539,597)**	(17,909,040)
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES	8	**(2,627,128)**	(7,714,440)
GAIN ON SALE OF INVESTMENT PROPERTIES	10	**–**	13,393,593
OTHER INCOME	18	**12,765,077**	10,250,247
INCOME BEFORE INCOME TAX		**8,772,162**	9,442,231
PROVISION FOR (BENEFIT FROM) INCOME TAX	19		
Current		**331,425**	3,029,332
Deferred		**1,310,215**	(429,110)
		1,641,640	2,600,222
NET INCOME		**7,130,522**	6,842,009
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME		**₱7,130,522**	₱6,842,009

See accompanying Notes to Financial Statements.

Banco Mexico, Inc. (A Rural Bank)

STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31	
	Note	**2022**	2021
CAPITAL STOCK	6		
Common		**₱50,000,000**	₱50,000,000
Redeemable preferred		**11,405,000**	11,405,000
		61,405,000	61,405,000
DEFICIT			
Balance at beginning of year		**(13,084,831)**	(19,926,840)
Net income		**7,130,522**	6,842,009
Balance at end of year		**(5,954,309)**	(13,084,831)
		₱55,450,691	₱48,320,169

See accompanying Notes to Financial Statements.

Banco Mexico, Inc. (A Rural Bank)

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱8,772,162**	₱9,442,231
Adjustments for:			
Gain on foreclosure of investment properties	10	**(8,157,110)**	(2,489,615)
Provision for credit and impairment losses on loans and receivables	8	**2,627,128**	7,714,440
Depreciation and amortization	11	**2,163,019**	2,020,874
Retirement benefit expense	13	**313,269**	–
Interest on lease liabilities	16	**222,316**	230,915
Gain on sale of investment properties	10	**–**	(13,393,593)
Operating income before working capital changes		**5,940,784**	3,525,252
Decrease (increase) in:			
Loans and receivables		**(8,183,392)**	(21,828,876)
Other assets		**(104,593)**	621,086
Increase (decrease) in:			
Deposit liabilities		**50,949,605**	2,804,448
Other liabilities		**(649,871)**	1,562,153
Net cash generated from (used for) operations		**47,952,533**	(13,315,937)
Income taxes paid		**(521,877)**	(2,188,820)
Net cash provided by (used in) operating activities		**47,430,656**	(15,504,757)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investment securities	9	**(10,000,000)**	(16,000,000)
Property and equipment	11	**(350,713)**	(436,548)
Proceeds from sale of investment properties	10	**–**	34,771,246
Net cash provided by (used in) investing activities		**(10,350,713)**	18,334,698
CASH FLOW FROM A FINANCING ACTIVITY			
Payments of lease liabilities	16	**(952,963)**	(998,550)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**36,126,980**	1,831,391
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**152,132,346**	150,300,955
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**₱188,259,326**	₱152,132,346
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and other cash items		**₱5,431,503**	₱6,482,615
Due from Bangko Sentral ng Pilipinas (BSP)		**7,774,192**	7,195,150
Due from other banks		**158,603,188**	138,454,581
Restricted cash		**16,450,443**	–
		₱188,259,326	₱152,132,346

(Forward)

	Note	Years Ended December 31 **2022**	2021
OPERATING CASH FLOWS FROM INTEREST			
Interest received		**₱18,408,925**	₱14,580,225
Interest paid		**3,101,585**	3,098,143
NONCASH FINANCIAL INFORMATION			
Acquisitions of investment properties through foreclosure	10	**₱12,647,345**	₱11,449,399
Recognition of right-of-use (ROU) assets and lease liabilities	16	**–**	1,221,664

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. **General Information**

Banco Mexico, Inc. (the Bank) was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on June 11, 1962. The Bank started its commercial operations upon the issuance by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) of the authority to operate as a rural bank in accordance with the "Rural Banks Act". The extension of the Bank's corporate term for another 50 years was approved by the SEC on November 18, 2011. However, in accordance with the Revised Corporation Code of the Philippines, the Bank shall have a perpetual existence.

The Bank was authorized to engage in the business of extending credit to small farmers and tenants and to deserving rural industries or enterprises. The Bank operates as a rural bank providing services such as deposit-taking, loans and trade finance and micro-finance services under the regulation and supervision of the BSP.

As at December 31, 2022 and 2021, the Bank has three branches, including the head office, located in Mexico and Sindalan in Pampanga, and Olongapo City in Zambales.

The registered address of the Bank, which is also its principal place of business and head office, is at GSO National Road, Parian, Mexico, Pampanga.

The financial statements of the Bank as at and for the years ended December 31, 2022 and 2021 were approved and authorized for issuance by the Board of Directors on April 27, 2023.

2. **Summary of Significant Accounting Policies**

The significant accounting policies used in the preparation of the financial statements have been consistently applied to all the years presented, unless otherwise stated.

<u>Basis of Preparation and Statement of Compliance</u>

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation from International Financial Reporting Interpretations Committee issued by the Philippine Financial and Sustainability Reporting Standards Council (formerly Financial Reporting Standards Council) and adopted by the SEC, including SEC pronouncements.

Measurement Bases

The financial statements are presented in Philippine Peso, which is the functional currency of the Bank. All amounts are in absolute values, unless otherwise indicated.

The Bank presents the statement of financial position broadly in the order of liquidity. An analysis of recoveries or settlements within 12 months (current) and more than 12 months (noncurrent) after the reporting date is presented in Note 14 to the financial statements, *Maturity Profile of Assets and Liabilities.*

The financial statements of the Bank have been prepared on a historical cost basis, except for lease liabilities that are initially measured at present value of remaining lease payments and retirement liability which is measured at present value of the retirement pay. Historical cost is generally based on the fair value of the consideration given in exchange for an asset or consideration given up in exchange for incurring a liability. 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 Bank uses market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

Level 1 - Quoted (unadjusted) market prices in active market 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting date during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 5 to the financial statements, *Fair Value Measurement and Disclosures.*

<u>Adoption of Amended PFRS</u>

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. There is no transition relief for first-time adopters.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments specify which costs shall be included when assessing whether a contract is onerous or loss-making. The ‘costs of fulfilling’ a contract comprise the ‘costs that relate directly to the contract’. These costs can either be incremental (e.g., the costs of direct labor and materials) or can be an allocation of costs directly related to fulfilling a contract (e.g., depreciation of fixed assets). At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.

  - Amendment to PFRS 16, *Leases - Lease Incentives* – The amendment removed from Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

The adoption of the amended PFRS did not materially affect the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable. *

Amended PFRS in Issue But Not Yet Effective or Adopted

Relevant amended PFRS, which are not yet effective as at December 31, 2022 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Bank shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

- Amendments to PAS 1, *Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Bank shall also apply Amendments to PAS 1 - *Classification of Liabilities as Current or Noncurrent* for that period.

Under prevailing circumstances, the adoption of the foregoing amended PFRS issuances is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the financial statements, as applicable.

Financial Assets and Liabilities

Date of Recognition. The Bank recognizes a financial asset or liability in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value ("Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes the "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at fair value though other comprehensive income (FVOCI) and (c) financial assets at FVPL. The classification of a financial asset largely depends on its contractual cash flow characteristics and the Bank's business model.

The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting date following the change in the business model (reclassification date).

Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2022 and 2021, the Bank has no financial assets and liabilities at FVPL and financial assets at FVOCI.

Financial Assets at Amortized Cost. Financial assets are measured at amortized cost if both of the following conditions are met:

- it is held with a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

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

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

The Bank's cash and other cash items, due from BSP and other banks, investment securities, loans and receivables, and other receivables and security deposit (included under "Other assets" account) are classified under this category.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

The Bank's deposit liabilities, due to PDIC, lease liabilities and other liabilities (excluding statutory liabilities and retirement liability) are included in this category.

Impairment of Financial Assets at Amortized Cost

The Bank assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Loans and Receivables. The Bank recognizes impairment losses on loans and receivables based on the criteria and guidelines as provided under Section 143 and Appendix 15 of the Manual of Regulations for Banks (MORB) issued by the BSP.

Other Financial Assets at Amortized Cost. For other financial assets at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively, for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on other financial assets at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Modification of Restructuring. The Bank may modify the original terms and conditions of an existing loan, which may include, but not limited to, change in interest rate, principal amount, and repayment schedule.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring. In determining those fees paid net of fees received, a borrower includes fees paid or received by either the borrower or lender on the other's behalf.

Derecognition of Financial Assets or Liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Investment Properties
Investment properties pertain to foreclosed real estate properties of the Bank. The foreclosed property acquired in settlement of loans is initially measured at fair value of the asset acquired unless the fair value of the asset cannot be measured, in which case the foreclosed property acquired is measured at the carrying amount of the settled loan amount. Any difference between the fair value of a foreclosed property acquired and the carrying amount of the loan upon foreclosure is recognized in profit or loss. Subsequent to initial recognition, foreclosed properties are carried at cost less any impairment in value.

A foreclosed property is derecognized when it has been disposed. Any gain or loss on the derecognition of a foreclosed property is recognized in profit or loss in the year of derecognition.

Depreciation is computed on a straight-line basis over the estimated useful life of 10 years from the date of acquisition.

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

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment losses.

The initial cost of an item of property and equipment comprises its purchase price, including nonrefundable purchase taxes, and any cost that are directly attributable to bringing the property and equipment to their location and operating condition intended by management. The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Expenditures incurred after the property and equipment have been put to operations, such as repairs and maintenance, are normally charged against operations in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in the increase in the future economic benefits to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

Asset Type	Number of Years
Building	20
Furniture and fixtures	3
Transportation equipment	5
Computer equipment	5

The estimated useful lives of property and equipment and method of depreciation and amortization are reviewed, and adjusted if appropriate, at the end of each reporting date.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The carrying amounts of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the year when the asset is derecognized.

Other Assets

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

Impairment of Nonfinancial Assets

The Bank assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Fair value less costs to sell is the carrying amount of the asset at the time of sale. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, present value is determined based on estimated future discounted cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Deposits for Future Stock Subscription

Deposit for future stock subscription represents funds received from existing or potential stockholders to be applied as payment for future issuance of capital stock. Deposit for future stock subscription is recognized as equity if and only if, all of the following elements forth by the SEC and BSP are present as of end of the reporting period:

- The deposit for future stock subscription meets the definition of an equity instrument under PAS 32, *Financial Instruments: Presentation* such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

- The existing authorized capital is already fully subscribed and is therefore insufficient to cover the amount of shares indicated in the contract;

- The Bank's stockholders and BOD have approved the proposed increase in authorized capital stock;

- The Bank has filed an application for the amendment of its Articles of Incorporation (AOI) for the increase in authorized capital stock with the BSP. In case the applications for the amendment of AOI have been returned due to insufficiency of supporting documents, the deposit for future stock subscription shall not qualify for recognition as an equity instrument;

- The Bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock; and

- A formal application for the increase in authorized capital stock has been filed or presented for filing with the SEC.

If any or all of the foregoing elements are not present, the transaction is recognized as a liability.

Equity

Capital Stock. Capital stock is measured at par value of all shares issued and outstanding.

Deficit. Deficit represents the cumulative balance of the results of operations.

Revenue Recognition
Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources.

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

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

Service Fees and Commissions. Service fees and commissions are recognized when the service has been provided.

Penalties. Income from penalties are recognized upon collection or being accrued when there is a reasonable degree of certainty as to its collectability.

Other Income. Income from other sources are recognized when earned.

Cost and Expense Recognition
Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Employee Benefits

Short-term Benefits. The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Bank provides for the estimated retirement benefits of qualified employees as required under Republic Act (RA) No. 7641, *Retirement Pay Law*. In the absence of a formal retirement plan, under RA No. 7641, an employee who retires shall be entitled to retirement pay equivalent to at least one-half month salary for every year of service minimum of five years, cash equivalent of five (5) days of service incentive leave and 1/12 of 13th month pay, a fraction of at least six (6) months being considered as one (1) whole year. The determination of the retirement liability incorporates assumptions such as discount rates and expected rate of salary increase.

The retirement liability recognized by the Bank is the present value of the defined benefit obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free rates of government bonds that have terms to maturity approximating the terms of the related retirement liability.

The Bank did not undertake an actuarial valuation determined using the projected unit credit method. Management believes that the effect in the financial statements of the difference between the current method used by the Bank and the required valuation method is not significant.

Leases

The Bank considers whether a contract is, or contains a lease at the inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement date of the lease, the Bank recognizes a ROU asset and a corresponding lease liability on the statement of financial position, 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 leases, the 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 asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Bank's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero.

ROU asset is measured at cost, which consists of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Bank amortizes ROU assets on a straight-line basis using the expected useful life ranging from three to five years or lease term, whichever is shorter. The Bank also assesses the ROU assets for impairment when such indicators exist.

ROU assets are presented under “Property and equipment”.

Related Party Transactions and Relationship

Related party transactions consist of transfer 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. This includes: (a) individuals who, by 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) member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly, including any director (whether exclusive or otherwise) of that entity.

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

Income Taxes

Current Tax. Current tax for the current and prior years is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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 asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are applicable to the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Provisions

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events after the Reporting Date

Events after the reporting date that provide additional information about the Bank's financial position at the end of the reporting date are reflected in the financial statements when material. Events after reporting date that are non-adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgment, make accounting estimates, and use assumptions that affect the reported amounts in the financial statements and accompanying notes at the reporting date. The judgments and accounting estimates and assumption used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. While the management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such accounting estimates.

Judgments

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

Determining the Classification of Redeemable Shares. The Bank exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The Bank has outstanding preferred shares which are redeemable from 2022 until 2027. However, the redemption is subject to certain conditions, which include approval by the BSP and the need to replace the redeemed shares with an at least equivalent amount in order to maintain the Bank's paid-up capital (see Note 6). Accordingly, the preferred shares are classified as equity in the statements of financial position because there is no unconditional contractual obligation to deliver cash or another financial asset in relation to the issuance of its outstanding redeemable shares.

Determining the Classification of Acquired Assets. The Bank classifies its acquired assets as property and equipment if these are properties expected to be used in operations, investment properties if these assets are properties held for currently undetermined future use and is regarded as held for capital appreciation or for sale but the disposal is expected not to materialize within one year, or assets held for sale if the Bank expects that these assets will be recovered through sale rather than use or the Bank remains committed to sell the assets through active marketing and disposal program if the sale will not materialize within one year.

As at December 31, 2022 and 2021, foreclosed assets are classified as investment properties are disclosed in Note 10 to the financial statements.

Determining the Appropriate Lease Term for Lease Contracts with Renewal and Termination Options. The Bank, as a lessee has entered into lease agreements for its office space and branch premises.

The Bank has exercised significant judgment in determining the lease term which is the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. It considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control that affects the ability to exercise or not to exercise the option to renew or terminate such as construction of a significant leasehold improvement or significant customization of the leased asset.

The lease agreements for the office space and branch premises are renewable upon mutual agreement of both parties to be covered by a separate and new lease agreement. Accordingly, the renewal options were not considered in the lease term.

The Bank elected not to recognize ROU assets and lease liabilities for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on straight-line basis over the lease term.

The carrying amounts of ROU assets, lease liabilities and amounts recognized in profit or loss in relation to the Bank's lease agreements are disclosed in Note 16 to the financial statements.

Evaluating Contingencies. The Bank is currently involved in some legal proceedings mainly pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 16).

Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Determining the Fair Value of Financial Instruments. Certain financial assets and liabilities are required to be carried at fair value or whose fair values are required to be disclosed, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

The fair values of the financial assets and liabilities are disclosed in Note 5 to the financial statements.

Determining the Fair Value of Investment Properties. The fair value of investment properties presented for disclosure purposes is based on market values, being the estimated amount for which the properties can be exchanged between a willing buyer and seller in an arm's-length transaction, or based on a most recent sale transaction of similar properties within the same vicinity where the investment properties are located.

The fair values of investment properties are disclosed in Note 10 to the financial statements.

Estimating the Credit and Impairment Losses on Loans and Receivables. The Bank follows the guidelines set by the BSP when determining credit and impairment losses on loans and receivables as provided under Section 143 and Appendix 15 of the MORB.

Pursuant to the BSP guidelines, loans and receivables are evaluated on an individual or collective basis and are subjected to the BSP prescribed loss percentages based on their age and credit quality.

The carrying amount, credit quality and impairment assessment of loans and receivables are disclosed in Note 4 to the financial statements.

Estimating the Useful Lives of Property and Equipment and Investment Properties. The Bank estimates the useful lives of property and equipment and investment properties based on the year over which the assets are expected to be available for use and the prescribed BSP guidelines. The estimated useful lives are reviewed annually and changed 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 property and equipment and investment properties. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the foregoing would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and depreciable investment properties in 2022 and 2021. The carrying amounts of the Bank's property and equipment and depreciable investment properties as at December 31, 2022 and 2021 are disclosed in Notes 10 and 11 to the financial statements.

Determining the Appropriate Discount Rates for Establishing Present Value of Lease Liabilities. The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The Bank estimates the incremental borrowing rate using observable inputs such as market interest rates when available and is required to make certain entity-specific adjustments. The incremental borrowing rate used in establishing present value of lease liabilities are obtained through adjusting risk-free borrowing costs for credit spread derived from historical lending rates from other banks and financial institutions.

The carrying amount and relevant information on the Bank's lease liabilities are disclosed in Note 16 to the financial statements.

Assessing the Impairment of Nonfinancial Assets. The Bank assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

The factors that the Bank considers important which could trigger an impairment review indicate the following:

(a) Significant underperformance relative to expected historical or projected future operating results;

(b) Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

(c) Significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of a nonfinancial asset exceeds its recoverable amount. The recoverable amount is based on the higher of fair value less costs of disposal and value-in-use. In computing value-in-use, the timing and amount of cash flows are estimated by management for the impaired asset or, when appropriate, for the cash generating unit to which the asset belongs.

There were no indications that the carrying amount of nonfinancial assets may be impaired. Accordingly, no impairment losses were recognized in 2022 and 2021.

The carrying amounts of significant nonfinancial assets are disclosed in Notes 10 and 11 to the financial statements.

Assessing the Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized within the period allowed by tax regulations.

Management has assessed that there is sufficient future taxable profit against which the deferred tax assets can be utilized within the period allowed by the tax regulations. The details and carrying amounts of deferred tax assets are disclosed in Note 19 to the financial statements.

4. **Financial Risk Management Objectives and Policies**

The Bank is exposed to a variety of financial risks in relation to its financial instruments. The main types of risks are credit risk, liquidity risk and market risk.

The Bank's risk management is closely coordinated with the BOD of the Bank and focuses on actively securing the Bank's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Bank is exposed to are described as follows:

Credit Risk

Credit risk is the risk that a customer or counterparty may fail to fulfill its contractual obligations to the Bank. This includes risk of non-payment by borrowers and issuers, failed settlement of transactions and default on outstanding contracts.

The Bank performs individual review of commercial accounts and aging analysis for consumer loans to come up with risk ratings for computation of required reserves.

The Bank's loans and receivables are actively monitored to avoid significant concentrations and possible deterioration of credit risk.

The Bank's activities are governed by its Risk Management Policies which defines guiding principles and parameters for credit activities as well as roles and responsibilities of every party to the over-all credit process. Credit policies and standards are periodically reviewed to ensure effectiveness and relevance.

The BOD undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The BOD reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Exposure to Credit Risk

The Bank's exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of each reporting date as shown in the statements of financial position. The Bank has no off-balance sheet credit exposures.

Credit Loss Measurement

In accordance with BSP guidelines, the Bank applies the following classification for its loans and receivables:

Stage 1 – credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk.

Stage 2 – credit exposures that are considered "underperforming" or not yet performing but with significant increase in credit risk since initial recognition.

Stage 3 – credit exposures with objective evidence of impairment, thus, considered as "non-performing."

The Bank individually assessed its loans and receivables for impairment using the prescribed loss rates below:

Stage	Number of Days Defaulted	Classification	Minimum Allowance for Credit and Impairment Losses
Unsecured			
1	0 to 30 days	Unclassified	1%
2	31 to 90 days	Substandard (Underperforming)	10%
3	91 to 120 days	Substandard (Nonperforming)	25%
3	121 to 180 days	Doubtful	50%
3	181 days and over	Loss	100%
Secured			
1	0 to 30 days	Unclassified	1%
2	31 to 90 days	Substandard (Underperforming)	10%
3	91 to 180 days	Substandard (Nonperforming)	10%
3	181 to 365 days	Substandard (Nonperforming)	25%
3	Over one year to five years	Doubtful	50%
3	Over five years	Loss	100%

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

Credit Quality per Class of Financial Assets. The following tables provide the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses):

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial Assets at Amortized Cost				
Due from BSP				
High grade	**₱7,774,192**	**–**	**–**	**₱7,774,192**
Due from other banks*				
High grade	**175,053,631**	**–**	**–**	**175,053,631**
Investment securities				
High grade	**152,044,000**	**–**	**–**	**152,044,000**
Loans to borrowers				
High grade	**109,720,501**	**–**	**–**	**109,720,501**
Standard grade	**–**	**1,869,570**	**–**	**1,869,570**
Past due but not individually impaired	**–**	**3,999,983**	**–**	**3,999,983**
Individually impaired	**1,097,205**	**787,650**	**37,129,060**	**39,013,915**
Sales contracts receivables				
High grade	**912,333**	**–**	**–**	**912,333**
Other assets**				
Standard grade	**2,326,812**	**–**	**–**	**2,326,812**
	₱448,928,674	**₱6,657,203**	**₱37,129,060**	**₱492,714,937**

**Includes restricted cash*
***Includes other receivables and security deposits.*

	2021			
	Stage 1	Stage 2	Stage 3	Total
Financial Assets at Amortized Cost				
Due from BSP				
High grade	₱7,195,150	–	–	₱7,195,150
Due from other banks				
High grade	138,454,581	–	–	138,454,581
Investment securities				
High grade	142,044,000	–	–	142,044,000
Loans to borrowers				
High grade	102,577,166	–	–	102,577,166
Standard grade	–	15,595,490	–	15,595,490
Past due but not individually impaired	–	3,442,795	–	3,442,795
Individually impaired	1,025,771	2,418,857	32,942,159	36,386,787
Sales contracts receivables				
High grade	1,978,017	–	–	1,978,017
Other assets*				
Standard grade	2,478,407	–	–	2,478,407
	₱395,753,092	₱21,457,142	₱32,942,159	₱450,152,393

**Includes other receivables and security deposits.*

Cash and Cash Equivalents. Due from BSP represents the aggregate balance of deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Hence, no significant credit risk is anticipated for this account.

The Bank is able to manage the credit risk arising from due from other banks by ensuring that the banks where these financial assets are invested are of high reputation and good credit standing. Furthermore, the Bank considers the insurance coverage of ₱500,000 under RA No. 9576, *Amendment to Charter of Philippine Deposit Insurance Corporation*.

Loans and Receivables. The credit quality of loans and receivables is generally monitored using the Bank's internal rating system.

- High Grade – This pertains to accounts with very low probability of default because of the borrower's established ability to tap its liquid resources to fully service its obligations as they become due. The borrower has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.
- Substandard Grade – These are loans and other credit accommodations that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
- Past due but not impaired – These pertains to accounts where contractual payments are past due but the Bank believes that collection of amounts owed to the Bank is probable.
- Impaired pertains to financial assets for which the Bank determines that it is probable that it will not be able to collect all principal and interest due based on the contractual terms and agreements.

Other Assets. These pertain to other receivables and security deposits from lease agreements that are refundable to the Bank after the termination of the lease term. These are considered as standard grade.

Concentration of Credit Risk

The concentrations of credit risk by sector of the Bank's financial assets (gross of allowance for credit and impairment losses) are presented below.

	2022				
	Loans and Receivables	**Due from BSP and Other Banks**	**Investment Securities**	**Other Assets[1]**	**Total**
Financial intermediaries	**₱–**	**₱182,827,823**	**₱152,044,000**	**₱–**	**₱334,871,823**
Wholesale and retail trade, repair of motor vehicles and motorcycles	**58,425,478**	**–**	**–**	**–**	**58,425,478**
Real estate activities	**23,932,176**	**–**	**–**	**–**	**23,932,176**
Agricultural, fishing, hunting and forestry	**16,337,317**	**–**	**–**	**–**	**16,337,317**
Construction	**12,876,625**	**–**	**–**	**–**	**12,876,625**
Financial and insurance activities	**5,571,802**	**–**	**–**	**–**	**5,571,802**
Accommodation and food service activities	**5,265,399**	**–**	**–**	**–**	**5,265,399**
Manufacturing	**1,294,423**	**–**	**–**	**–**	**1,294,423**
Transportation and storage	**1,197,021**	**–**	**–**	**–**	**1,197,021**
Professional, scientific and technical activities	**282,307**	**–**	**–**	**–**	**282,307**
Education	**154,180**	**–**	**–**	**–**	**154,180**
Information and communication	**107,133**	**–**	**–**	**–**	**107,133**
Water supply, sewerage, waste management and remediation activities	**101,718**	**–**	**–**	**–**	**101,718**
Other service activities	**29,058,390**	**–**	**–**	**–**	**29,058,390**
Others	**912,333**	**–**	**–**	**2,326,812**	**3,239,145**
	₱155,516,302	**₱182,827,823**	**₱152,044,000**	**₱2,326,812**	**₱492,714,937**

[1]*Comprised of accounts and interest receivable, and security deposit.*

	2021				
	Loans and Receivables	Due from BSP and Other Banks	Investment Securities	Other Assets[1]	Total
Financial intermediaries	₱–	₱145,649,731	₱142,044,000	₱–	₱287,693,731
Wholesale and retail trade, repair of motor vehicles and motorcycles	43,600,830	–	–	–	43,600,830
Agricultural, fishing, hunting and forestry	30,764,776	–	–	–	30,764,776
Real estate activities	24,626,867	–	–	–	24,626,867
Financial and insurance activities	8,674,757	–	–	–	8,674,757
Construction	8,263,297	–	–	–	8,263,297
Manufacturing	6,261,246	–	–	–	6,261,246
Accommodation and food service activities	3,627,756	–	–	–	3,627,756
Transportation and storage	2,059,199	–	–	–	2,059,199
Professional, scientific and technical activities	1,021,770	–	–	–	1,021,770
Education	157,189	–	–	–	157,189
Information and communication	114,913	–	–	–	114,913
Water supply, sewerage, waste management and remediation activities	101,719	–	–	–	101,719
Other service activities	28,727,919	–	–	–	28,727,919
Others	1,978,017	–	–	2,478,407	4,456,424
	₱159,980,255	₱145,649,731	₱142,044,000	₱2,478,407	₱450,152,393

[1]*Comprised of accounts and interest receivable, and security deposit.*

Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans to borrowers in the form of mortgage interests over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not usually held against cash and cash equivalents and investment securities, and no such collateral was held at December 31, 2022 and 2021. Disposal of collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for secured loans to borrowers, as follows:

	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements
2022	**₱113,496,512**	**₱211,187,919**	**₱111,527,983**
2021	112,002,339	208,797,242	106,796,084

Liquidity Risk

The Bank's policy is to maintain adequate liquidity at all times. This policy aims to honor all cash requirements on an ongoing basis and to avoid raising funds above market rates or through the forced sale of assets.

Liquidity risk is the risk that sufficient funds may not be available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquid financial assets at all times to meet obligations when these fall due, under both normal and stressed conditions, without incurring unacceptable losses that would be detrimental to the Bank's operations.

The Bank manages liquidity risk by maintaining a portfolio of highly liquid financial assets of appropriate quality to ensure that short-term funding requirements are met regularly and in the event of unforeseen interruption of cash flows. Specifically, the Bank's liquidity risk management is focused on the matching of the maturities of its liquid financial assets and short-term liabilities. In addition, the Bank also seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when this arises.

The maturity analysis of the Bank's financial assets and liabilities at amortized cost as at December 31, 2022 and 2021 is presented below.

	2022		
	Within One Year	**Beyond One Year**	**Total**
Financial Assets at Amortized Cost			
Cash and other cash items	**₱5,431,503**	**₱–**	**₱5,431,503**
Due from BSP	**7,774,192**	**–**	**7,774,192**
Due from other banks	**158,603,188**	**–**	**158,603,188**
Restricted cash	**–**	**16,450,443**	**16,450,443**
Investment securities	**78,000,000**	**74,044,000**	**152,044,000**
Loans and receivables[1]	**45,925,011**	**109,591,291**	**155,516,302**
Accounts and interest receivable[2]	**2,226,812**	**–**	**2,226,812**
Security deposits[2]	**100,000**	**–**	**100,000**
	298,060,706	**200,085,734**	**498,146,440**
Financial Liabilities at Amortized Cost			
Deposit liabilities	**384,414,511**	**5,150,767**	**389,565,278**
Due to the Philippine Deposit Insurance Corporation (PDIC)	**–**	**56,100,000**	**56,100,000**
Lease liabilities	**692,674**	**1,041,879**	**1,734,553**
Other liabilities[3]	**3,452,337**	**–**	**3,452,337**
	388,559,522	**62,292,646**	**450,852,168**
Net Periodic Gap	**(₱74,048,373)**	**₱121,342,645**	**₱47,294,272**
Cumulative Total Gap	**(₱74,048,373)**	**₱47,294,272**	**₱–**

[1] Net of allowance for credit and impairment losses amounting to ₱39.0 million (see Note 8).
[2]Included under "Other assets" account.
[3]Excluding statutory liabilities and retirement liability amounting to ₱378,778 and ₱313,269, respectively (see Note 13).

	2021		
	Within One Year	Beyond One Year	Total
Financial Assets at Amortized Cost			
Cash and other cash items	₱6,482,615	₱–	₱6,482,615
Due from BSP	7,195,150	–	7,195,150
Due from other banks	138,454,581	–	138,454,581
Investment securities	68,000,000	74,044,000	142,044,000
Loans and receivables[1]	12,936,493	110,656,975	123,593,468
Accounts and interest receivable[2]	2,378,407	–	2,378,407
Security deposits[2]	100,000	–	100,000
	235,547,246	184,700,975	420,248,221
Financial Liabilities at Amortized Cost			
Deposit liabilities	333,464,906	5,160,767	338,625,673
Due to PDIC	–	56,100,000	56,100,000
Lease liabilities	929,000	1,536,200	2,465,200
Other liabilities[3]	4,146,386	–	4,146,386
	338,540,292	62,796,967	401,337,259
Net Periodic Gap	(₱102,993,046)	₱121,904,008	₱18,910,962
Cumulative Total Gap	(₱102,993,046)	₱18,910,962	₱–

[1] Net of allowance for credit and impairment losses amounting to ₱36.4 million (see Note 8).
[2] Included under "Other assets" account.
[3] Excluding statutory liabilities amounting to ₱334,600 (see Note 13).

The Bank continually assesses business opportunities and strategies where it can effectively and sufficiently match its short-term funding requirements with adequate liquid assets through taking customers' deposits with longer maturities and discounting loans to other financial institutions with repayments terms enough to cover credit demands of customers.

Minimum Liquidity Ratio (MLR)
MLR is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments. The Bank is required to maintain a prudential MLR of 20.0% daily to promote short-term resilience to liquidity shocks.

The Bank is in compliance with the foregoing, having an MLR of 84.8% and 83.3% as at December 31, 2022 and 2021, respectively, as reported to the BSP. Details is as follows:

	2022	2021
Eligible stock of liquid assets	**₱339,248,502**	₱294,177,303
Total qualifying liabilities	**400,043,019**	353,034,490
MLR	**84.8%**	83.3%

Market Risk
Market risk is the risk that changes in market prices or indices, such as interest rates will affect the Bank's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. As at December 31, 2022 and 2021, the Bank has minimal exposure to market risk.

Interest Rate Risk. The Bank does not have any variable interest financial instruments carried at amortized cost as at December 31, 2022 and 2021. The Bank seeks to maintain net interest rate spread between assets and liabilities.

The Bank, in keeping up with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transitional banking requirement of borrowers.

The deposit liabilities consist of demand, savings and time deposit accounts. Rates on savings accounts, which constituted 81% and 85% of total deposit liabilities as at December 31, 2022 and 2021, respectively, are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits are usually priced according to the amount deposited.

The following table provides for the average effective interest rate by period of maturity or repricing of the Bank.

	2022			2021		
	Less than Three Months	**Three Months to One Year**	**More than One Year**	Less than Three Months	Three Months to One Year	More than One Year
Financial Assets:						
Due from other banks and investment securities	**0.05% to 3.25%**	**0.89% to 1.15%**	**1.83% to 4.13%**	0.05% to 3.25%	0.89% to 1.15%	1.83% to 4.13%
Loans and receivables	**6.00% to 23.00%**	**6.00% to 21.00%**	**6.00% to 20.00%**	9.50% to 28.00%	9.50% to 29.00%	6.00% to 24.00%
Financial Liabilities:						
Demand and saving deposits	**0.25% to 2.00%**	**–**	**–**	0.25% to 2.00%	–	–
Time deposits	**2.50% to 3.00%**	**2.50% to 3.00%**	**2.50% to 3.00%**	2.50% to 3.00%	2.50% to 3.00%	2.50% to 3.00%

5. Fair Value Measurement and Disclosures

The following table presents the carrying amounts and fair values of the Bank's assets and liabilities measured at fair value or for which fair values are disclosed, and the corresponding hierarchy as at December 31.

		2022			
			Fair Value		
	Note	**Carrying Amount**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets which Fair Values are Disclosed"					
Investment securities	9	**₱152,044,000**	**₱138,238,120**	**₱–**	**₱–**
Loans and receivables	8	**116,502,387**	**–**	**–**	**136,884,040**
Investment properties	10	**46,590,815**	**–**	**–**	**46,590,815**
		₱315,137,202	**₱138,238,120**	**₱–**	**₱183,474,855**
Liabilities which Fair Values are Disclosed:					
Time deposits	12	**₱5,150,767**	**₱–**	**₱5,150,767**	**₱–**
Due to PDIC	16	**56,100,000**	**–**	**–**	**42,838,120**
Lease liabilities	16	**1,734,553**	**–**	**–**	**1,861,869**
		₱62,985,320	**₱–**	**₱5,150,767**	**₱44,699,989**

		2021			
			Fair Value		
	Note	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets which Fair Values are Disclosed:					
Investment securities	9	₱142,044,000	₱128,936,817	₱–	₱–
Loans and receivables	8	123,593,468	–	–	148,291,469
Investment properties	10	26,523,757	–	–	26,523,757
		₱292,161,225	₱128,936,817	₱–	₱174,815,226
Liabilities which Fair Values are Disclosed:					
Time deposits	12	₱5,150,767	₱–	₱5,150,767	₱–
Due to PDIC	16	56,100,000	–	–	42,856,675
Lease liabilities	16	2,465,200	–	–	2,888,005
		₱63,715,967	₱–	₱5,150,767	₱45,744,680

There were no transfers between levels/hierarchies of fair value measurements in 2022 and 2021.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value or those whose fair values are disclosed are as follows.

Investment Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated by either using values obtained from adjusted quoted market prices of comparable investments.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans and is categorized as Level 3. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Investment Properties. Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser.

To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Generally, significant increases (decreases) in the selling price per square meter for real estate properties would result to a significantly higher (lower) fair value measurement.

Time Deposits and Due to PDIC and Lease Liabilities. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature or demand feature of the transactions:

	2022	2021
Financial Assets		
Cash and other cash items	**₱5,431,503**	₱6,482,615
Due from BSP	**7,774,192**	7,195,150
Due from other banks[1]	**175,053,631**	138,454,581
Accounts and interest receivable	**2,226,812**	2,378,407
Security deposit[2]	**100,000**	100,000
	₱190,586,138	₱154,610,753
Financial Liabilities		
Deposit liabilities:		
Savings	**₱313,645,789**	₱288,828,794
Demand	**70,768,722**	44,636,112
Other liabilities[3]	**3,452,337**	4,146,386
	₱387,866,848	₱337,611,292

[1]*Includes restricted cash.*
[2]*Included under "Other assets" account.*
[3]*Excluding statutory liabilities and retirement liability amounting to ₱692,047 and ₱334,600 as at December 31, 2022 and 2021, respectively.*

6. Capital Management

<u>Capital Stock</u>

Details of capital stock as at December 31, 2022 and 2021 are as follows:

	Number of Shares	Amount
Authorized - ₱100 par value		
Common shares	500,000	₱50,000,000
Preferred shares (either as Preferred Stock A or B)	200,000	20,000,000
	700,000	₱70,000,000

	Number of Shares	Amount
Issued and Outstanding		
Common shares	500,000	₱50,000,000
Preferred shares - Class B	114,050	11,405,000
	614,050	₱61,405,000

Preferred shares shall only be issued against government investment in the capital stock of the Bank and also against the financial assistance from the PDIC under the Strengthening Program for Rural Banks. Government-held preferred shares shall be denominated as Preferred Stock A while PDIC-held shares shall be denominated as Preferred Stock B.

Outstanding preferred shares of the Bank solely pertain to shares issued to the PDIC (see Note 16). These are redeemable starting 2022 until 2027 subject to the following conditions:

- It shall be allowed at the specific dates or periods fixed for redemption only upon prior approval of the BSP and where the conditions of the issuance specifically state, only if the shares are redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption. Provided that, the redemption shall not be earlier than five years after the date of issuance. Provided further, that such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital, or inability of the bank to meet its debts as they mature.

- A sinking fund for the redemption of preferred shares is to be created upon their issuance.

- The Bank shall not treat in any way redeemable preferred shares as time deposit, deposit substitute or other form of borrowings.

- No dividend shall be declared or paid on redeemable preferred shares in the absence of sufficient undivided profits, free surplus and approval of the BSP.

The following are the other salient features of Preferred Stock B:

- non-voting;
- cumulative;
- convertible to common stock;
- holders are entitled to a fixed dividend annually based on the prevailing PDST-R2 rate immediately preceding the date of the subscription of PDIC; and
- with put option exercisable by the PDIC.

Deposit for Future Stock Subscription

On June 25, 2020, the BOD approved the increase in authorized capital stock from ₱70.0 million to ₱140.0 million, which was ratified by the stockholders on July 9, 2020. The Bank received the related deposits for future stock subscription from its stockholders amounting to ₱5.4 million.

On December 29, 2022, the BOD and the stockholders re-approved the application to increase the authorized capital stock of the Bank. As at report date, the planned increase is still subject to application and approval by the BSP and SEC.

Capital Management

Regulatory Qualifying Capital. The Bank's lead regulator, the BSP, sets and monitors capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk. Under the relevant provisions of the current BSP regulations, the regulatory capital is analyzed into two tiers.

Details of Capital Adequacy Ratio (CAR) as reported to the BSP, are as follows:

	2022	2021
Tier 1 Capital	**₱35,234,709**	₱31,782,931
Tier 2 Capital	**12,511,448**	12,511,448
Total regulatory qualifying capital	**₱47,746,157**	₱44,294,379
Risk-weighted assets	**₱397,849,004**	₱326,173,322
Tier 1 capital ratio	**8.86%**	9.74%
Tier 2 capital ratio	**3.14%**	3.84%
Total capital ratio	**12.00%**	13.58%

Tier 1 Capital and Tier 2 Capital are defined as follows:

a. Tier 1 Capital includes the following:

- paid-up common stock;
- surplus and surplus reserves; and
- undivided profits (for domestic banks only).

Subject to deductions for:

- treasury shares (if any);
- unrealized losses on underwritten listed equity securities purchased;
- unbooked valuation reserves, and other capital adjustments based on the latest BSP report of examination;
- outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and related interests (DOSRI);
- goodwill; and
- deferred income tax.

b. Tier 2 Capital includes:

- dividends distributable (if any);
- appraisal increment reserve - bank premises if any, as authorized by the Monetary Board of the BSP;
- preferred shares;
- general loan loss provision (GLLP), limited to a maximum of 1.0% of credit; and
- risk-weighted assets.

The Bank sets up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations).

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

Pursuant to Section 121, *Minimum Required Capital* of the MORB, capitalization requirement applicable to the Bank is ₱30.0 million (for head office with up to 10 branches in all cities up to third class municipalities outside Metro Manila).

As at December 31, 2021, the Bank is compliant with the minimum capital requirement of the BSP.

On August 24, 2022, the Monetary Board issued Circular No. 1151, *Amendments to the Minimum Capitalization of Rural Banks*, increasing the minimum capital requirement for rural banks.

Pursuant to this circular, the amended minimum capitalization requirement applicable to the Bank is ₱50.0 million. Rural banks are given five years to comply with the new minimum capital requirement.

As at reporting date, the Bank is continuously working on addressing the issues raised by the BSP in its application for increase in authorized capital stock. The Bank expects that the deposits amounting to ₱5.4 million received from the stockholders will be converted to capital stock in 2023.

Leverage Ratio. The BSP also requires the maintenance of leverage ratio of not less than 5.00%, which is designed to act as a supplementary measure to risk-based capital requirements.

The Bank's leverage ratio, which is computed by dividing the total capital, by the total exposure measure, which is the total assets of the Bank is as follows:

	2022	2021
Total capital	**₱47,746,157**	₱44,294,379
Total exposure measure	**512,367,306**	455,544,880
Leverage ratio	**9.32%**	9.72%

As at December 31, 2022 and 2021, the Bank is compliant with the leverage ratio requirements of the BSP.

7. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

	2022	2021
Cash and other cash items	**₱5,431,503**	₱6,482,615
Due from BSP	**7,774,192**	7,195,150
Due from other banks	**158,603,188**	138,454,581
Restricted cash	**16,450,443**	–
	₱188,259,326	₱152,132,346

Due from BSP represents deposits maintained with the BSP to meet reserve requirements. The composition of the required reserves should be kept in the form of deposits placed in the Banks' demand deposit accounts with the BSP. As at December 31, 2022 and 2021, the Bank is in compliance with said requirement (see Note 12). No interest income was recognized in 2022 and 2021 as the due from BSP no longer bears interest.

Restricted cash pertains to the sinking fund set aside in relation to issuance of redeemable preferred shares (see Note 16).

Interest income from due from other banks amounted to ₱694,433 and ₱631,449 in 2022 and 2021, respectively.

8. Loans and Receivables

This account consists of:

	2022	2021
Loans to borrowers	**₱154,603,969**	₱158,002,238
Sales contract receivables	**912,333**	1,978,017
	155,516,302	159,980,255
Allowance for credit and impairment losses	**(39,013,915)**	(36,386,787)
	₱116,502,387	₱123,593,468

There were no restructured loans in 2022 and 2021.

Sales contract receivables represent the balance of the selling price of assets owned or acquired under an agreement wherein the title to the said assets shall only be transferred to the buyer upon full payment. These are paid on a monthly or quarterly basis for terms ranging from one to three years.

Interest rate on receivables from customers ranges from 6% to 29% in 2022 and 2021. Total interest income earned from loans and receivables amounted to ₱15.2 million and ₱13.0 million in 2022 and 2021, respectively.

Allowance for Credit and Impairment Losses

Movements in the allowance for credit and impairment losses on loans and receivables are as follows:

	2022	2021
Balance at beginning of year	**₱36,386,787**	₱28,672,347
Provision	**2,627,128**	7,714,440
Balance at end of year	**₱39,013,915**	₱36,386,787

9. Investment Securities

Investment securities at amortized cost pertain to placements for treasury bills with maturities ranging from six months to 10 years from the date of acquisition. The effective interest rate of these investments ranges from 1.15% to 4.00% annually.

The reconciliation of investment securities at amortized cost as at December 31, 2022 and 2021 is as follows:

	2022	2021
Balance at beginning of year	**₱142,044,000**	₱126,044,000
Additions	**10,000,000**	16,000,000
Balance at end of year	**₱152,044,000**	₱142,044,000

This account also include government securities amounting to ₱56.6 million as at December 31, 2022 and 2021 that are currently being managed by the PDIC. These serve as the collateral for the interest-bearing loan to the Bank (see Note 16).

Total interest income earned from investment securities amounted to ₱2.6 million and ₱2.0 million in 2022 and 2021, respectively.

10. Investment Properties

Movements in this account are as follows:

	Note	2022	2021
Cost			
Balance at beginning of year		**₱26,901,300**	₱34,339,939
Foreclosure		**20,804,455**	13,939,014
Disposals		**–**	(21,377,653)
Balance at end of year		**47,705,755**	26,901,300
Accumulated Depreciation			
Balance at beginning of year		**377,543**	–
Depreciation	17	**737,397**	377,543
Balance at end of year		**1,114,940**	377,543
Carrying Amount		**₱46,590,815**	₱26,523,757

In 2022 and 2021, loans with an aggregate carrying amount of ₱12.6 million and ₱11.4 million, respectively, were derecognized in exchange for foreclosed properties. The Bank's gain on foreclosure is disclosed in Note 18.

The Bank sold various investment properties in 2021 with carrying amount of ₱21.4 million for ₱34.8 million, resulting to a gain of ₱13.4 million.

No income was recognized related to the investment properties.

The aggregate fair values of investment properties amounted to ₱47.8 million and ₱27.0 million as at December 31, 2022 and 2021, respectively. The fair values of the investment properties are determined using the Market Data Approach and is based on recent sale transactions involving properties within the same areas or vicinities taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement is categorized as Level 3 (see Note 5).

11. Property and Equipment

Movements in this account are as follows:

		2022					
	Note	Building	Furniture and Fixtures	Transportation Equipment	Computer Equipment	ROU Assets (see Note 16)	Total
Cost							
Balance at beginning of year		₱3,595,555	₱2,128,699	₱2,303,500	₱1,000,000	₱4,529,338	₱13,557,092
Additions		–	317,713	33,000	–	–	350,713
Balance at end of year		3,595,555	2,446,412	2,336,500	1,000,000	4,529,338	13,907,805
Accumulated Depreciation and Amortization							
Balance at beginning of year		2,746,484	1,456,335	1,995,439	980,998	2,129,322	9,308,578
Depreciation and amortization	17	231,422	239,841	227,797	19,002	707,560	1,425,622
Balance at end of year		2,977,906	1,696,176	2,223,236	1,000,000	2,836,882	10,734,200
Carrying Amount		₱617,649	₱750,236	₱113,264	₱–	₱1,692,456	₱3,173,605

	Note	2021 Building	Furniture and Fixtures	Transportation Equipment	Computer Equipment	ROU Assets (see Note 16)	Total
Cost							
Balance at beginning of year		₱5,201,220	₱4,650,701	₱4,494,916	₱1,176,400	₱3,553,826	₱19,077,063
Additions		16,500	420,048	–	–	1,221,664	1,658,212
Retirement		(1,622,165)	(2,942,050)	(2,191,416)	(176,400)	(246,152)	(7,178,183)
Balance at end of year		3,595,555	2,128,699	2,303,500	1,000,000	4,529,338	13,557,092
Accumulated Depreciation and Amortization							
Balance at beginning of year		4,110,382	4,179,771	3,870,536	1,030,775	1,651,966	14,843,430
Depreciation and amortization	17	258,267	218,614	316,319	126,623	723,508	1,643,331
Retirement		(1,622,165)	(2,942,050)	(2,191,416)	(176,400)	(246,152)	(7,178,183)
Balance at end of year		2,746,484	1,456,335	1,995,439	980,998	2,129,322	9,308,578
Carrying Amount		₱849,071	₱672,364	₱308,061	₱19,002	₱2,400,016	₱4,248,514

Under the BSP regulations, the Bank's total investments in real estate and improvements, including equipment, should not exceed 50% of the Bank's net worth. The Bank is compliant with the 50% threshold as at December 31, 2022 and 2021.

Details of depreciation and amortization are as follows:

	Note	2022	2021
Property and equipment		**₱1,425,622**	₱1,643,331
Investment properties	10	**737,397**	377,543
		₱2,163,019	₱2,020,874

12. **Deposit Liabilities**

The breakdown of deposit liabilities per classification follows:

	2022	2021
Savings	**₱313,645,789**	₱288,828,794
Demand	**70,768,722**	44,636,112
Time	**5,150,767**	5,150,767
	₱389,565,278	₱338,615,673

Under the existing BSP regulations, deposit liabilities are subject to statutory reserve requirement of 3.0%. The Bank has available reserves consisting of due from BSP amounting to ₱7.8 million and ₱7.2 million as at December 31, 2022 and 2021, respectively (see Note 7).

Deposit liabilities have annual interest rates ranging from 0.25% to 3.00% per annum in 2022 and 2021. Interest expense on deposit liabilities amounted to ₱2.3 million and ₱3.2 million in 2022 and 2021, respectively.

13. **Other Liabilities**

This account consists of:

	2022	2021
Accounts payable	**₱2,001,480**	₱2,820,423
Accrued expenses	**1,450,857**	1,325,963
Statutory liabilities	**378,778**	334,600
Retirement liability	**313,269**	–
	₱4,144,384	₱4,480,986

Accounts payable mainly include advance payments from borrowers.

Accrued expenses include interest, utilities, professional fees, outside services, among others.

Statutory liabilities consist of amount due to government agencies such as mandatory benefits of employees and withholding taxes. These are normally settled within the next financial year.

Retirement Liability

The Bank provides for the estimated retirement benefits of qualified employees as required under RA No. 7641. In the absence of a formal retirement plan, under RA No. 7641, an employee who retires shall be entitled to retirement pay equivalent to at least one-half month salary for every year of service minimum of 5 years, cash equivalent of five days of service incentive leave and 1/12 of the 13th month pay, a fraction of at least six months being considered as one whole year.

The Bank did not obtain an actuarial valuation since the management assessed that the difference between the retirement liability as determined by an acceptable actuarial valuation method and the estimated retirement liability will not significantly affect the Bank's financial position and results of operations.

In 2022, the Company recognized retirement benefit expense amounting to ₱0.3 million. The assumptions were determined using the discount rate ranging from 7.03% to 9.25%.

The plan exposes the Company to the following risks:

- *Salary risk* - any increase in the retirement plan participants' salary will increase the retirement plan's liability

- *Longevity risk* - any increase in the plan participants' life expectancy will increase the retirement plan's liability

- *Interest rate risk* - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets

The average duration of the expected benefit payments at the end of reporting period is 28.3 years.

As at December 31, 2022, the maturity of the undiscounted future benefit payments amounting to ₱1.4 million is over ten years.

14. **Maturity Profile of Assets and Liabilities**

The following tables present the carrying amount of assets and liabilities by contractual maturity and settlement dates as at December 31:

	2022			2021		
	Less than One Year	**Over One Year**	**Total**	Less than One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱5,431,503**	**₱–**	**₱5,431,503**	₱6,482,615	₱–	₱6,482,615
Due from BSP	**7,774,192**	**–**	**7,774,192**	7,195,150	–	7,195,150
Due from other banks	**158,603,188**	**–**	**158,603,188**	138,454,581	–	138,454,581
Restricted cash	**–**	**16,450,443**	**16,450,443**	–	–	–
Loans and receivables	**45,925,011**	**109,591,291**	**155,516,302**	49,323,280	110,656,975	159,980,255
Investment securities	**78,000,000**	**74,044,000**	**152,044,000**	68,000,000	74,044,000	142,044,000
Accounts and interest receivable[1]	**2,226,812**	**–**	**2,226,812**	2,378,407	–	2,378,407
Security deposit[1]	**100,000**	**–**	**100,000**	100,000	–	100,000
	298,060,706	**200,085,734**	**498,146,440**	271,934,033	184,700,975	456,635,008
Nonfinancial Assets						
Investment properties	–	**46,590,815**	**46,590,815**	–	26,523,757	26,523,757
Property and equipment	–	**3,173,605**	**3,173,605**	–	4,248,514	4,248,514
Deferred tax assets	–	**2,644,944**	**2,644,944**	–	3,955,159	3,955,159
Other assets	**825,417**	–	**825,417**	569,229	–	569,229
	825,417	**52,409,364**	**53,234,781**	569,229	34,727,430	35,296,659
Allowance for credit and impairment losses on loans and receivables	**(39,013,915)**	**–**	**(39,013,915)**	(36,386,787)	–	(36,386,787)
Total Assets	**₱259,872,208**	**₱252,495,098**	**₱512,367,306**	₱236,116,475	₱219,428,405	₱455,544,880

	2022			2021		
	Less than One Year	**Over One Year**	**Total**	Less than One Year	Over One Year	Total
Financial Liabilities						
Deposit liabilities	**₱384,414,511**	**₱5,150,767**	**₱389,565,278**	₱333,464,906	₱5,150,767	₱338,615,673
Due to PDIC	**–**	**56,100,000**	**56,100,000**	–	56,100,000	56,100,000
Lease liabilities	**692,674**	**1,041,879**	**1,734,553**	929,000	1,536,200	2,465,200
Other liabilities[2]	**3,452,337**	**–**	**3,452,337**	4,146,386	–	4,146,386
	388,559,522	**62,292,646**	**450,852,168**	338,540,292	62,786,967	401,327,259
Nonfinancial Liabilities						
Deposits for future stock subscription	**–**	**5,372,400**	**5,372,400**	–	5,372,400	5,372,400
Statutory liabilities	**378,778**	**–**	**378,778**	334,600	–	334,600
Retirement liability	**–**	**313,269**	**313,269**	–	–	–
Income tax payable	**–**	**–**	**–**	190,452	–	190,452
	378,778	**5,685,669**	**6,064,447**	525,052	5,372,400	5,897,452
Total Liabilities	**₱388,938,300**	**₱67,978,315**	**₱456,916,615**	₱339,065,344	₱68,159,367	₱407,224,711

[1]*Included under "Other assets" account.*
[2]*Excluding statutory liabilities (see Note 13).*

15. **Related Party Transactions**

In the ordinary course of business, the Bank may enter into loan and deposit transactions with certain DOSRI. Under existing policies of the Bank, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25.0% of equity. The amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of the deposit and book value of their investment on the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15.0% of the total loan portfolio of the Bank, whichever is lower.

Under Sections 344 and 345 of the MORB, the portion of loans and other accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder is excluded in determining compliance with individual and aggregate ceiling.

Summary of the transactions are as follows:

	2022		2021	
Related Parties	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI				
Loans and receivables	**₱3,060,729**	**₱3,769,604**	₱4,838,814	₱708,875

The foregoing loans and receivables represent 2.44% and 0.45% of the Bank's total loan portfolio as at December 31, 2022 and 2021, respectively. Interest rate on these loans ranges from from 10.0% to 13.0% in 2022 and 2021. Interest income earned amounted to ₱150,005 and ₱103,439 in 2022 and 2021, respectively.

Compensation of Key Management Personnel

Compensation of key management personnel included under "Salaries and other employee benefits" in the statements of comprehensive income amounting to ₱2.4 million in 2022 and 2021 pertains to short-term employee benefits. No long-term benefits were paid in 2022 and 2021.

Compliance with New Revenue Regulations

The Bank is not covered by the requirements and procedures for related party transactions under Revenue Regulations No. 34-2020.

16. Significant Agreements, Commitments and Contingencies

The following are the significant agreements, commitments and contingencies involving the Bank:

Financial Assistance Agreement

In 2017, the Bank entered into a Financial Assistance Agreement (the Agreement) with the PDIC in line with the latter's *Strengthening Program for Rural Banks.* The Agreement provides for an interest-bearing loan of ₱56.1 million, and financial assistance of ₱11.4 million in exchange for the Bank's preferred shares.

Due to PDIC. The loan bears an annual interest of 1.8% with a maximum term of 10 years from the date of release of the loan. The related interest expense on due to PDIC amounted to ₱1.0 million in 2022 and 2021.

The loan will become due and demandable under the following conditions (a) upon full exercise by PDIC of its put option; (b) in the event PDIC sells, assigns or transfers all the preferred shares or (c) upon redemption of preferred shares.

Government securities amounting to ₱56.6 million as at December 31, 2022 and 2021 which are being managed by PDIC and serves as a collateral for the loan (see Note 9).

Preferred Shares. Pursuant to the terms of the Agreement, the shares are redeemable after the fifth year but not later than the 10th year of the Agreement. The terms, conditions and other salient features of the preferred shares are disclosed in Note 6 to the financial statements.

The Agreement contains restriction on declaration of dividends, change in nature of business, dilution of preferred shares, grant of DOSRI loans exceeding 10.0% of total loan portfolio, among others. Moreover, the Agreement requires the submission of monitoring reports to PDIC, compliance with the terms and conditions of preferred shares, particularly on its redemption, compliance with relevant regulatory issuances, among others.

In 2022, the Bank set-up the sinking fund. The Bank is compliant with the foregoing covenants.

<u>Lease Commitments - the Bank as a Lessee</u>
The Bank entered into non-cancellable lease agreements for the lease of its office spaces and the premises where some of its branches are situated for a period of one to 10 years, renewable upon mutual agreement between the parties.

Movements in ROU assets are presented in Note 11 to the financial statements.

Outstanding security deposits on lease commitments, which are refundable in cash upon termination of lease agreements, amounted to ₱100,000 as at December 31, 2022 and 2021.

Movements in lease liabilities are as follows:

	2022	2021
Balance at beginning of year	**₱2,465,200**	₱2,011,171
Payments	**(952,963)**	(998,550)
Interest	**222,316**	230,915
Additions	**–**	1,221,664
Balance at end of year	**₱1,734,553**	₱2,465,200

Lease-related expenses are as follows:

	Note	**2022**	2021
Amortization of ROU assets	11	**₱707,560**	₱723,508
Interest expense on lease liabilities		**222,316**	230,915
Rent expense	17	**138,936**	138,936
		₱1,068,812	₱1,093,359

<u>Contingencies</u>
As at December 31, 2022 and 2021, the Bank is involved in various legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsel, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

17. **Operating Expenses**

	Note	2022	2021
Salaries and other employee benefits		**₱5,409,543**	₱5,488,282
Professional fees		**2,379,851**	1,772,192
Depreciation and amortization	10, 11	**2,163,019**	2,020,874
Taxes and licenses		**1,552,713**	2,668,314
Insurance		**811,414**	786,537
Security, clerical and messengerial		**780,261**	786,838
Office supplies		**635,682**	859,237
Utilities		**403,137**	336,008
Director's fees		**369,400**	348,900
Retirement benefit expense	13	**313,269**	–
Fuel and oil		**263,060**	192,545
Interest expense on lease liability	16	**222,316**	230,915
Fines and penalty charges		**139,012**	268,406
Rent	16	**138,936**	138,936
Assets-acquired expenses		**101,075**	363,450
Representation and entertainment		**94,584**	62,661
Dues and subscription		**91,167**	74,875
Repairs and maintenance		**77,344**	106,135
Commission		**–**	564,893
Others		**593,814**	839,042
		₱16,539,597	₱17,909,040

18. **Other Income**

	Note	2022	2021
Gain on foreclosure of investment properties	10	**₱8,157,110**	₱2,489,615
Service fees and commission		**2,355,484**	3,141,337
Penalties		**2,031,417**	4,480,552
Others		**221,066**	138,743
		₱12,765,077	₱10,250,247

19. **Income Tax**

Provision for current income tax in amounting to ₱0.3 million and ₱3.0 million in 2022 and 2021, respectively, pertains to RCIT.

The reconciliation of the provision for income tax expense computed at the statutory tax rate to the provision for income tax shown in the statements of comprehensive income is as follows:

	2022	2021
Provision for income tax at statutory rate	**₱2,193,041**	₱2,360,558
Tax effects of:		
Interest income already subjected to final tax	**(818,522)**	(649,479)
Nondeductible expenses	**267,121**	301,468
Effect of change in income tax rate	**–**	587,675
Provision for income tax at effective rate	**₱1,641,640**	₱2,600,222

Details of net deferred tax assets (liability) are as follows:

	2022	2021
Allowance for credit and impairment losses on loans and receivables	**₱5,175,545**	₱4,518,763
Retirement liability	**78,317**	–
Excess of lease-related expenses over payments	**52,764**	58,800
	5,306,626	4,577,563
Gain on foreclosure of investment properties	**(2,661,682)**	(622,404)
	₱2,644,944	₱3,955,159

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") was approved and signed into law by the country's President. Under the CREATE, the RCIT of domestic corporations was reduced from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, the minimum corporate income tax was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

In 2020, however, the enactment of the CREATE Act was treated as a non-adjusting event for financial reporting. The effect of the change was recognized in 2021.

20. **Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, *Amendments to Regulations on Financial Audit of Banks***

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the MORB of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

	2022	2021
Return on average equity	**13.74%**	15.24%
Return on average assets	**1.47%**	1.52%
Net interest margin	**3.53%**	2.84%

B. Description of Capital Instruments Issues

The Bank considers its capital stock as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2022 and 2021.

C. Details of Loans

Details of loans as to collateral are as follows:

	2022		2021	
	Amount	**%**	Amount	%
Secured	**₱113,496,512**	**73.41%**	₱112,002,339	70.89%
Unsecured	**41,107,457**	**26.59%**	45,999,899	29.11%
	₱154,603,969	**100.00%**	₱158,002,238	100.00%

The fair value of real estate collaterals amounted to ₱211.2 million and ₱208.8 million as at December 31, 2022 and 2021, respectively.

Concentration of credit indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry. Details of loans to borrowers by industry (gross of allowance for credit and impairment losses) are as follows:

	2022		2021	
	Amount	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles and motorcycles	**₱58,425,478**	**37.79%**	₱43,600,830	27.60%
Real estate activities	**23,932,176**	**15.48%**	30,764,776	19.47%
Agricultural, fishing, hunting and forestry	**16,337,317**	**10.57%**	24,626,867	15.59%
Construction	**12,876,625**	**8.33%**	8,674,757	5.49%
Financial and insurance activities	**5,571,802**	**3.60%**	8,263,297	5.23%
Accommodation and food service activities	**5,265,399**	**3.41%**	6,261,246	3.96%
Manufacturing	**1,294,423**	**0.84%**	3,627,756	2.30%
Transportation and storage	**1,197,021**	**0.77%**	2,059,199	1.30%

(Forward)

Professional, scientific and technical activities	**₱282,307**	**0.18%**	₱1,021,770	0.65%
Education	**154,180**	**0.10%**	157,189	0.10%
Information and communication	**107,133**	**0.07%**	114,913	0.07%

	2022		2021	
	Amount	**%**	Amount	%
Water supply, sewerage, waste management and remediation activities	**101,718**	**0.06%**	101,719	0.06%
Other service activities	**29,058,390**	**18.80%**	28,727,919	18.18%
	₱154,603,969	**100.00%**	₱158,002,238	100.00%

Included in the loans to borrowers are nonperforming loans (NPL) amounting to ₱44.0 million and ₱37.5 million as at December 31, 2022 and 2021, respectively.

NPL pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts. All other loan accounts, even if not considered impaired, should be considered nonperforming if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interest for more than 90 days have been capitalized, refinanced, or delayed by agreement.

The gross and net NPL of the Bank as reported to the BSP are as follows:

	2022	2021
Gross NPL	**₱44,021,677**	₱37,511,094
Net NPL	**10,565,082**	2,755,513
Gross NPL Ratio	**28.47%**	23.74%
Net NPL ratio	**6.83%**	1.74%

Gross NPL are as follows:

	2022	2021
Secured	**₱23,098,117**	₱23,029,850
Unsecured	**20,923,560**	14,481,244
	₱44,021,677	₱37,511,094

NPL are not reclassified as performing loans until interest and principal payments are brought to current and future payments are assured.

Status of loans per product as at December 31, 2022 and 2021 are as follows:

	2022		
	Performing Loans	**NPL**	**Total**
Small and medium enterprise loans	**₱58,586,985**	**₱18,402,954**	**₱76,989,939**
Loans to individual	**29,431,455**	**19,927,387**	**49,358,842**
Agrarian reform/Other agricultural loans	**11,190,423**	**5,089,436**	**16,279,859**
Microenterprise loans	**11,373,429**	**601,900**	**11,975,329**
	₱110,582,292	**₱44,021,677**	**₱154,603,969**

	2021		
	Performing Loans	NPL	Total
Small and medium enterprise loans	₱49,935,123	₱15,029,175	₱64,964,298
Loans to individual	49,472,029	9,194,475	58,666,504
Agrarian reform/Other agricultural loans	11,420,788	13,157,528	24,578,316
Microenterprise loans	9,663,204	129,916	9,793,120
	₱120,491,144	₱37,511,094	₱158,002,238

D. DOSRI/Related Party Loans

Based on the requirements of the BSP, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10% of a bank's net worth, the unsecured portion should not exceed 5% of such net worth. Further, the total outstanding exposures should not exceed 20% of the net worth of the lending bank.

All related party loans as at December 31, 2022 and 2021 are DOSRI loans. Details follow:

	2022	2021
Total outstanding DOSRI loans	**₱3,769,604**	₱708,875
Percent of DOSRI loans to total loan portfolio	**2.44%**	0.45%
Percent of unsecured DOSRI loans to total DOSRI loans	**100.00%**	100.00%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

E. Assets Pledged to Secure Liabilities

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2022 and 2021.

F. Contingencies and Commitments arising from Off-balance Sheet Items

The Bank has no off-balance sheet items as at December 31, 2022 and 2021.

BANCO MEXICO, INC. (A RURAL BANK)

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

As at December 31, 2022 and 2021

Below is a schedule showing financial soundness indicators:

Ratio	Formula	2022	2021
Current Ratio	Current assets	**₱276,322,651**	₱236,116,475
	Divide by: Current liabilities	**388,938,300**	339,065,344
	Current Ratio	**0.71:1**	0.70:1
Acid Test Ratio	Quick assets	**₱197,397,234**	₱167,447,246
	Divide by: Current liabilities	**388,938,300**	339,065,344
	Acid Test Ratio	**0.51:1**	0.49:1
Solvency Ratio	Net income before interest and depreciation and amortization	**₱12,801,981**	₱13,326,004
	Divide by: Total liabilities	**456,916,615**	407,224,711
	Solvency Ratio	**0.03:1**	0.03:1
Debt-to-Equity Ratio	Total liabilities	**₱456,916,615**	₱407,224,711
	Divide by: Total equity	**55,450,691**	48,320,169
	Debt-to-Equity Ratio	**8.24:1**	8.43:1
Asset-to-Equity Ratio	Total assets	**₱512,367,306**	₱455,544,880
	Divide by: Total equity	**55,450,691**	48,320,169
	Asset-to-Equity Ratio	**9.24:1**	9.43:1
Debt Service Coverage Ratio	Income before depreciation and amortization , taxes and interest	**₱14,443,621**	₱15,926,226
	Divide by: Interest-bearing obligations	**447,399,831**	397,180,873
	Interest-Coverage Ratio	**0.03:1**	0.04:1
Interest-Coverage Ratio	Income before taxes and interest	**₱12,280,602**	₱13,905,352
	Divide by: Interest expense	**3,508,440**	4,463,121
	Interest-Coverage Ratio	**3.50:1**	3.12:1
Return on Equity	Net income	**₱7,130,522**	₱6,842,009
	Divide by: Average equity	**51,885,430**	44,899,165
	Return on Equity	**0.14:1**	0.15:1
Return on Assets	Net income	**₱7,130,522**	₱6,842,009
	Divide by: Average assets	**483,956,093**	449,618,335
	Return on Assets	**0.01:1**	0.02:1
Net Interest Margin	Net interest income	**₱14,951,494**	₱11,190,956
	Divide by: Average earning assets	**423,846,034**	393,680,075
	Net Profit Margin	**0.04:1**	0.03:1