

ANNUAL REPORT 2022

WELCOME BANK (RURAL BANK), INC.

banking@welcomebank.com.ph
www.welcomebank.com.ph
(02) 8282 8585
Pasig City 1605, Philippines

Welcome Bank
Rural Bank

TABLE OF CONTENTS

Corporate Policy 3
- Our Vision 3
- Our Mission 3
- Our Core Values 3
- Our Market 3

Business Model 4
Business Transition History 4
President's Report 5
Financial Highlights 6
Comparative Balance Sheet 7
Comparative Income Statement 8
Financial summary 9
- Profitability 9
- Balance Sheet 9
- Capital Structure & Adequacy 9
- Bank's Financial Performance for the Last Five (5) Years 11

Corporate Governance 14
- Supervisory Assessment Framework 15
- Board and Senior Management 16
- Selection Process for the Board and Senior Management 16
- Qualifications of a Director 16
- Member of the Board of Directors 17
- 2022 Attendance of the Members of the Board 19
- Board-Level & Management Committee 19
- Performance Assessment Program 21
- Orientation and Education Program 21
- Retirement and Succession Planning 22
- The Remuneration Policy 22
- Policy on Related Party Transactions 23
- Self-Assessment Functions 23
- Dividend Policy 24
- Sustainable Finance Framework 24
- Environment and Social Risk Management Framework 25
- Corporate Social Responsibility Initiatives 26
- Affiliation 26
- Management Information System (MIS) 27
- Accountability and Audit 27

Compliance 28
- Statement of Compliance Policies 28
- Money Laundering & Terrorist Financing Prevention Program (MTPP) 28

Capital Structure & Capital Adequacy 30
Risk Management Framework 31
- Risk and Appetite Strategy 31
- Bank-wide Risk Governance Structure and Risk Management Process 31

Corporate Information 33
- Organizational Structure 33
- Stockholders and Stockholdings 34
- Products and Services 35
- Branches and Offices 39

Audited Financial Statements 40

CORPORATE POLICY

Our Mission

To become one of the most dynamic and well managed Bank in the Philippines.

Our Vision

To contribute to the society by creating the best value based on people and knowledge.

Our Core Values

- High Integrity means exercising the highest ethical standards in all personal and professional dealings.
- Professional Digitalization means performing tasks accurately, efficiently and effectively. Gong extra mile and rising above expectations by continuously improving products and services; systems and processes to deliver the best possible results.
- Financial Excellence Provider means ability to satisfy and delight our customers and enabling small savers to achieve greater productivity and small borrowers to have better access to funds.

Our Market

As the Bank aimed to fulfill its vision mission and with the fast-evolving banking business based on digitalized environment, the Bank strategic plan can contribute to the accessibility to financial market and financial transaction of those with unavailable credit history or financial records thus fostering financial inclusion of the unbanked segment of the community.

In the Bank's efforts to transform its banking services and operations into digital-centric or Fintech ready, it can accommodate more customers to enjoy seamless and convenient services without leaving the comforts of their homes and ensures their health and safety from the infectious COVID 19 plaguing not only the country but globally.

BUSINESS TRANSITION HISTORY

- The two-joint venture partners – Welcome Financial Group (Korea) and Flowtiger Ventures, Inc. (Philippines) have entered Philippines financial market by establishing Welcome Finance, Inc. in May 2014, and since then have serviced consumer loans to small business operators as well as salaried costumers.

- In November 2018, the same two partners have signed "Share Purchase Agreement" to acquire Smart Bank (Rural Bank), Inc. with a view to availing the banking license.

- Bangko Sentral ng Pilipinas (BSP) approval was released for:
  - Share transfer - August 2019
  - Relocation of Head Office from Muntinlupa City to Pasig City – December 2019
  - Bank name change to Welcome Bank (Rural Bank), Inc. - April 2020

BUSINESS MODEL

- Taking the full advantage of the accumulated experience in the Philippines financial market since May 2014 via Welcome Finance, Inc., and Welcome Bank (Rural Bank), Inc. will focus on consumer loan market in the beginning stage.
  - Small Business Operator: Business Loan, Premier Business Loan
  - Salaried Customer: Salary Loan, Personal Loan, Personal Happy Loan
  - Secured Loan: Condo-mortgaged Loan, Auto Loan

- At later stage, WLCM will expand its loan target customers to corporate borrowers.

- Given the weak branch networks and reputation of WLCM, competitive interest will be offered to depositors.
  - Time Deposit: target high potential customers with higher deposit interest offerings
  - Savings Deposit: target general public customers with slightly higher interest
  - Demand Deposit: service to mainly corporate customers

PRESIDENT'S REPORT

The hyper-inflation across the world, which was triggered by price rise in oil and agricultural products amid Russia-Ukraine War started in February 2022, has forced the BSP to significantly hike policy interest rate over the year 2022. Since April 2022, the BSP has raised its policy interest rate from 2.0% to 6.25% until recently, and 0.25%-to-0.50%-point further increase is expected this year.

Under this market circumstances, particularly in the second half of the 2022, a big woe has slashed the financial market due to significant increase in funding costs as well as concerns about rise in overdue rates of loans.

Taking such a market situation into consideration, Welcome Bank has focused on risk management in its business operation rather than on growing its loan assets. In line with this, Welcome Bank has adopted a stricter credit screen process and heightened its bar in terms of minimum credit criteria in the second half of 2022.

As a result, Welcome Bank has shrunken its loan disbursement volume in the 2nd half of 2022 to a total of PhP73 million only, compared to PhP121 million in the 1st half of the same year. Therefore, the annual loan volume disbursed in 2022 has squeezed to PhP195 million from PhP204 million in 2021, representing a 4.5% decrease.

On the other hand, considering the sufficient level of liquidity backed by the deposit for stock subscription in the amount of PhP73 million, Welcome Bank has not rolled out any aggressive marketing campaign to acquire customer deposits in 2022. As a result, the deposit outstanding at the end of 2022 has fallen to PhP236 million from PhP290 million one year ago. However, as the loan outstanding is constantly increasing, the liquidity is adversely decreasing now. Therefore, we will roll out more aggressive marketing campaigns to acquire more customer deposits this year.

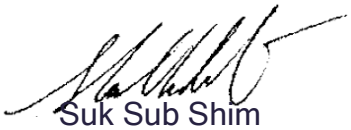
Let me briefly present the financial performance of Welcome Bank for the year 2022.

- Total Assets and resources of the Bank shrank from P539 million at the end of 2021 to P485 million at the end of 2022, primary due to fall in deposit outstanding and due from other banks;
- Total Liabilities also down from P478 million to P356 million in the same period;
- In contrast, total Loans surged by 38% from P182 million to P251 million in the same period;
- Total Equity closed at P129 million at the end of 2022
- Net loss in 2022 has posted at P6.5 million vs. P25.6 million in 2021.

In the coming years, we have a business target to constantly grow loan assets. This strategy is achievable only when we can increase acquisition of new deposits from customers to use for funding sources of the loan business. In the 2nd half of 2023 and onwards, we will be facing the situation where loan volume cannot grow without increasing deposit outstanding.

We are grateful to the shareholders and Board of Directors for their generous support, to business associates for their hardwork and to loyal clients for making Welcome Bank (Rural Bank), Inc. their preferred bank.

Together, we look forward to a better position towards achieving our balanced goals in the year 2023.



Suk Sub Shim
President & CEO

FINANCIAL HIGHLIGHTS

In year 2022, the hyper-inflation brought by the Russian-Ukraine War affects the financial market and the country's economy. With such market situation, Welcome Bank has focused on risk management in its business operation. The Bank has adopted a stricter credit screen process and heightened its bar in terms of minimum credit criteria.

Selected Financial Information

Comparison of the financial highlights for 2022 and 2021 based on Audited Financial Statements certified by our external auditors, AMC & Associates.

(Amounts in Thousand Pesos)

	2022	2021	INC/(DEC)
Gross Revenues	109,641	56,139	53,502
Net Profit (Loss)	(7,097)	(25,635)	(18,538)
Income Tax Paid	(1,969)	(7,195)	(5226)
Cash and Due from Banks	171,354	298,852	127,498
Investments	765	970	(205)
Loan Portfolio, Net	251,263	182,277	68,986
Total Assets	485,448	539,445	(53,997)
Total Deposits	236,033	289,779	(53,766)
Capital Funds	129,338	61,496	67,842

Total Assets and Resources of Welcome Bank for 2022 amounts to P485 million. There was a 11.12% decrease amounting to P53 million from 2021's amount of P539 million.

Total Liabilities for 2022 is P356 million. There was a 33.99% decrease amounting to P121 million as compared to 2021's Total Liabilities of P477 million.

The Equity was at P129 million which is above the minimum capital requirement of P50 million.

Due to decrease in Net Loss and increase in Net Income and Other Income, the Bank closed the year 2022 with a lower Total Comprehensive Loss amounting to P7,097,303.00 as compared to P25,635,372.00 of Year 2021.

The lower Net loss is due to the increase of the following income: Interest Income on Loans and Receivables of P49 million or 55.8%; Interest on Bank Deposits with Other Banks of P308K or 37.68%; Other income of 4.1 million or 19.84%. The bank booked General Loan Loss and Expected Credit Loss Provision of P9,997,709 for the year and bringing the Total Loan Loss Provisioning of P16,927,922.

COMPARATIVE BALANCE SHEET

As of December 31, 2022 and 2021

(Rounded to Nearest Peso)

	2022	2021	Increase/(Decrease)
Assets			
Cash & Other Cash Items	**1,545,908**	632,013	913,895
Due from BSP	**6,863,010**	5,980,649	882,361
Due from Other Banks	**162,945,208**	292,239,099	(129,293,891)
Held to Maturity	**765,272**	969,942	(204,670)
Loans & Receivables (Net)	**251,262,503**	182,277,182	68,985,321
Bank Premises	**24,399,301**	24,317,233	82,068
Investment Property	**3,377,766**	-	3,377,766
Right-of-use Asset	**2,737,204**	1,688,541	1,048,663
Intangible Asset	**10,210,242**	10,801,386	(591,144)
Other Assets	**21,342,389**	20,539,465	802,924
Total Assets	**485,448,803**	**539,445,510**	**(53,996,707)**
Liabilities			
Deposit Liabilities	**236,033,135**	289,779,331	(53,746,196)
Bills Payable	**100,000,000**	100,000,000	-
Deposit for Stock Subscription	**-**	74,939,894	(74,939,894)
Lease Liabilities	**3,377,879**	1,879,230	1,498,649
Retirement Benefit Obligation	**1,061,778**	-	1,061,778
Accrued Interest & Other Liabilities	**15,637,587**	11,351,222	4,286,365
Total Liabilities	**356,110,379**	**477,949,677**	**(121,839,298)**
Capital Stock	**100,000,000**	100,000,000	0
Deposit for Stock Subscription	**74,939,894**	-	74,939,894
Surplus Free	**(45,601,470)**	(38,504,167)	(7,097,303)
Total Equity	**129,338,424**	**61,495,833**	**67,842,591**
Total Liabilities & Equity	**P485,448,803**	**P539,445,510**	**(P53,996,707)**

COMPARATIVE INCOME STATEMENT

As of December 31, 2022 and 2021

(Rounded to Nearest Peso)

	2022	2021	Increase/(Decrease)
Interest Income			
Loans & Other Receivables	**87,902,031**	38,843,844	49,058,187
Bank Deposits	**818,278**	509,948	308,330
Financial Assets	**35,318**	44,404	(9,086)
Total Interest Income	**88,755,627**	**39,398,196**	**49,357,431**
Interest Expenses			
Deposit Liabilities	**11,266,235**	6,103,936	5,162,299
Bills Payable	**3,781,431**	2,383,332	1,398,099
Lease Liabilities	**161,224**	243,895	(82,671)
	15,208,890	**8,731,163**	**6,477,727**
Net Interest Income	**73,546,737**	**30,667,033**	**42,879,704**
Provision for Credit & Impairment Losses	**9,997,709**	**6,530,827**	
Net Interest Income after Credit & Impairment Losses	**63,549,028**	**24,136,206**	
Other Income			
Service Charges & Fees	**2,495,523**	87,275	2,408,248
Rentals	**2,586,457**	2,968,432	(381,975)
Others	**15,802,905**	13,685,226	2,117,679
	20,884,885	**16,740,933**	**4,143,952**
Other Expenses			
Compensation & Fringe Benefits	**29,054,653**	27,665,827	1,388,826
Depreciation & Amortization	**12,161,347**	11,357,798	803,549
Taxes and Licenses	**7,701,678**	5,963,921	1,737,757
Other Administrative Expenses	**43,947,553**	28,720,046	15,227,507
	92,865,231	**73,707,592**	**19,157,639**
Profit (Loss) Before Tax	**(8,431,318)**	(32,830,453)	(24,399,135)
Tax Expense (Benefit)	**(1,969,299)**	(7,195,081)	(5,225,782)
Net Profit (Loss)	**(P6,462,019)**	**(P25,635,372)**	**(P19,173,353)**
Other Comprehensive Income			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment defined	**847,046**	-	
benefit plan	**(211,762)**	-	
Tax Effect	**635,284**		
Total Comprehensive Loss	**7,097,303**	**P25,635,372**	

FINANCIAL SUMMARY

Profitability

	2022	2021
Net Interest Income	**73,547**	30,667
Non-Interest Income	**20,885**	16,741
Non-Interest Expense	**92,865**	73,708
Profit Before Tax & Provision	**(8,431)**	(32,830)
Income Tax	**(1,969)**	(7,195)
Provision for Impairment/Losses	**9,998**	6,940
Net Income (Loss)	**(7,097)**	(25,635)

Balance Sheet

	2022	2021
Liquid Assets	**172,119**	299,822
Gross Loans	**251,263**	182,277
Total Assets	**485,449**	539,445
Deposits	**236,033**	289,779
Total Equity	**129,338**	61,495

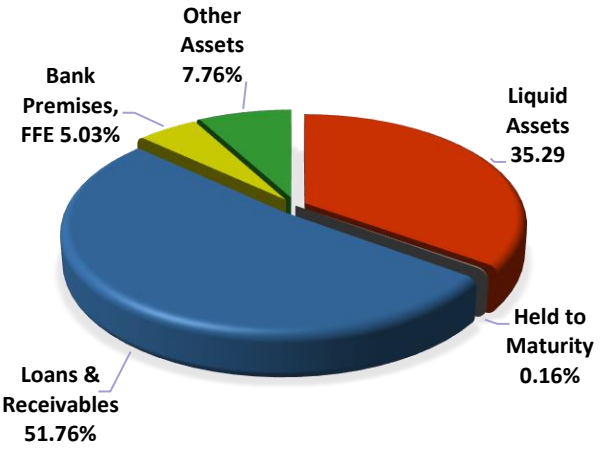
Capital Structure & Adequacy

	2022	2021
Tier 1 Capital		
Common Stock	**100,000**	100,000
Deposit for Stock Subscription	**74,940**	-
Deficit	**(38,504)**	(12,869)
Comprehensive Loss for the Year	**(7,097)**	(25,635)
Less: Deferred Tax Asset	**16,429**	13,443
Total	**112,910**	48,052
Tier 2 Capital		
General Loan Loss Provision	**2,338**	1,681
Total Qualifying Capital	**115,248**	49,733
Risk-weighted Assets	**490,420**	522,427
Total CET Capital expressed as percentage of total risk weighted assets	**26.37%**	11.78%
Total Tier 1 Capital expressed as percentage of total risk weighted assets	**23.02%**	9.20%
Total Regulatory capital expressed as percentage of total risk weighted assets	**23.50%**	9.52%

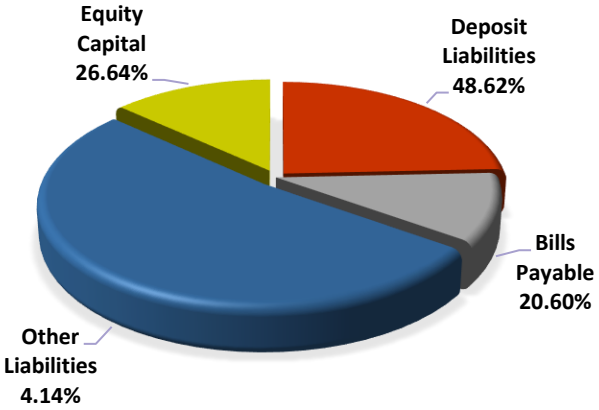
Composition and percentage of each asset account to total resources as of December 31, 2022 is shown below. Total earning assets (loans and investments) account for only **51.76%** of total assets.

Assets (% and in Thousand Pesos)

➢ Liquid Assets	171,354	35.29%
➢ Held to Maturity	765	0.16%
➢ Loans & Receivables	251,263	51.76%
➢ Bank Premises, FFE	24,399	5.03%
➢ Other Assets	37,668	7.76%
	P485,449	**100%**



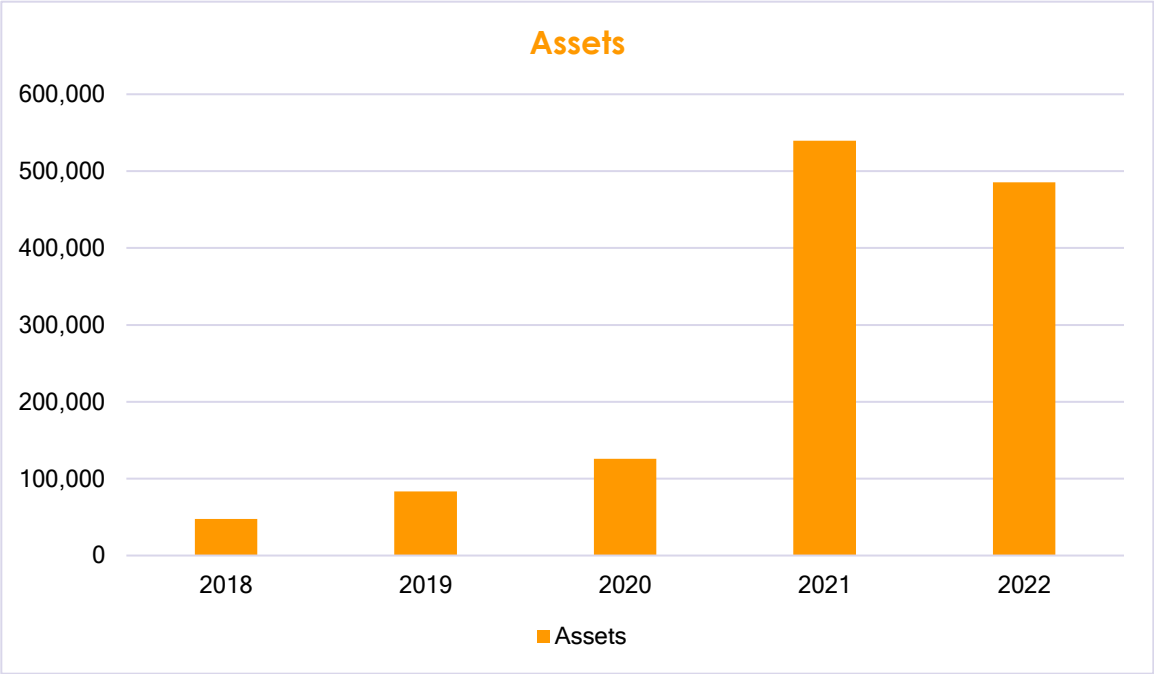
Liquid asset is equal to 72.60% of total deposit liabilities which means that the Bank can service withdrawals anytime when the need arises. As shown below, capital account represents 26.64% of total resources.



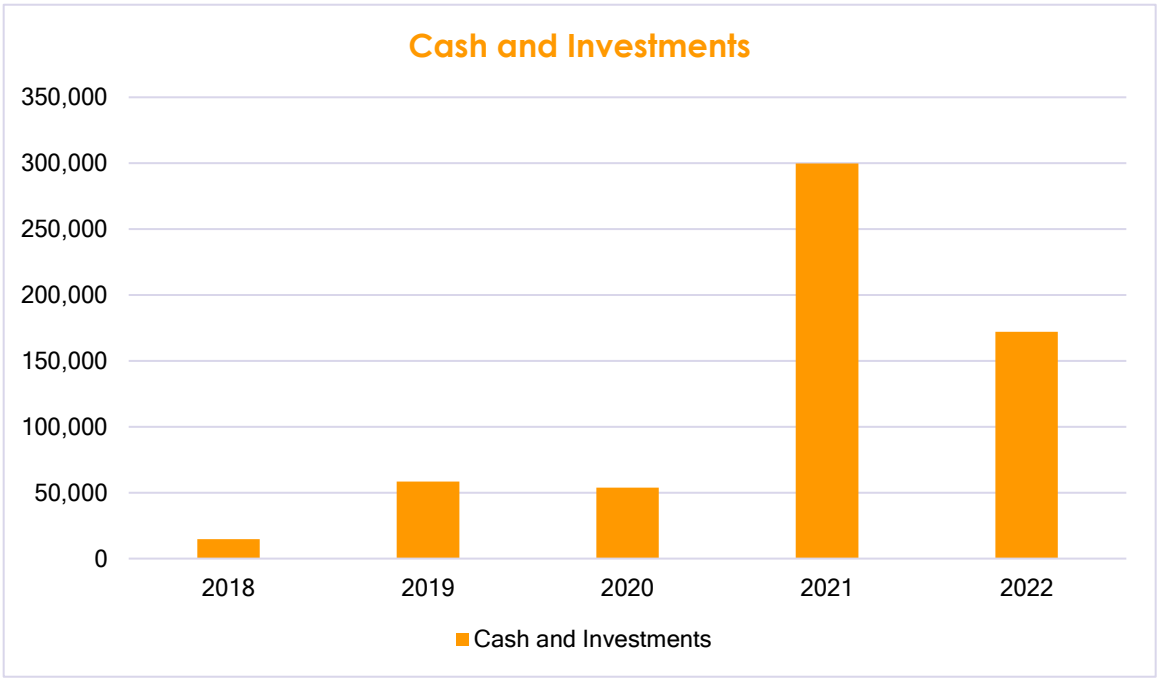
Liabilities & Equity (% and in Thousand Pesos)

➢ Deposit Liabilities	236,033	48.62%
➢ Bills Payable	100,000	20.60%
➢ Other Liabilities	20,078	4.14%
➢ Equity Capital	129,338	26.64%
	P485,449	**100%**

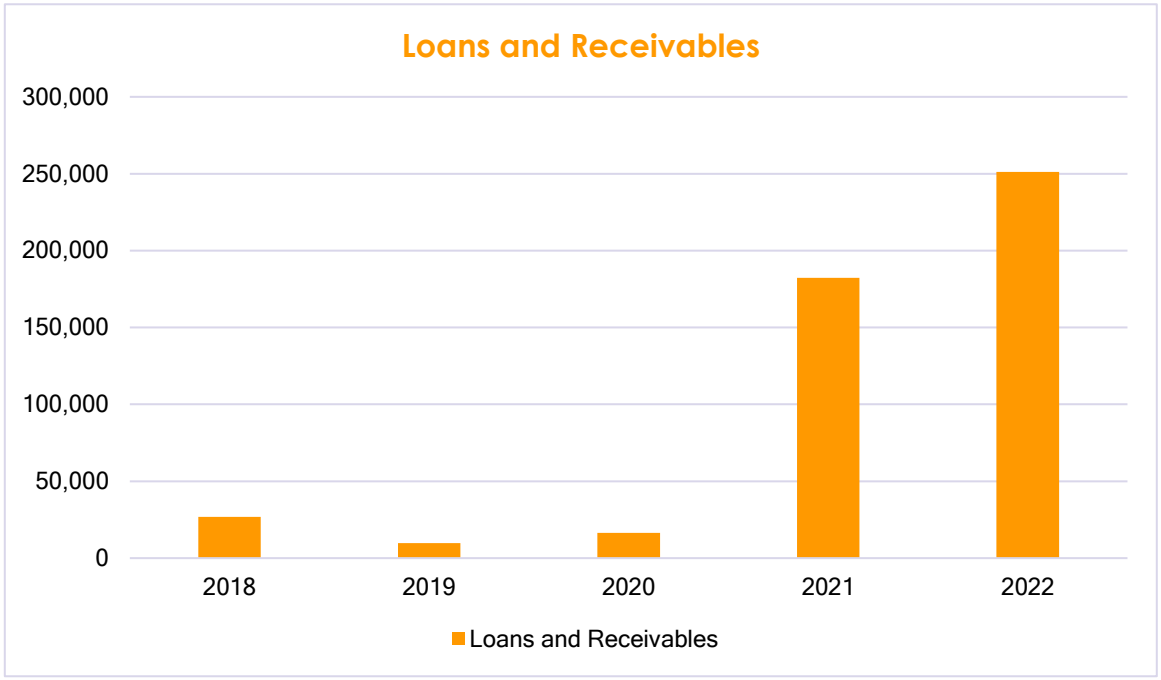
Bank's Financial Performance for the Last Five (5) Years



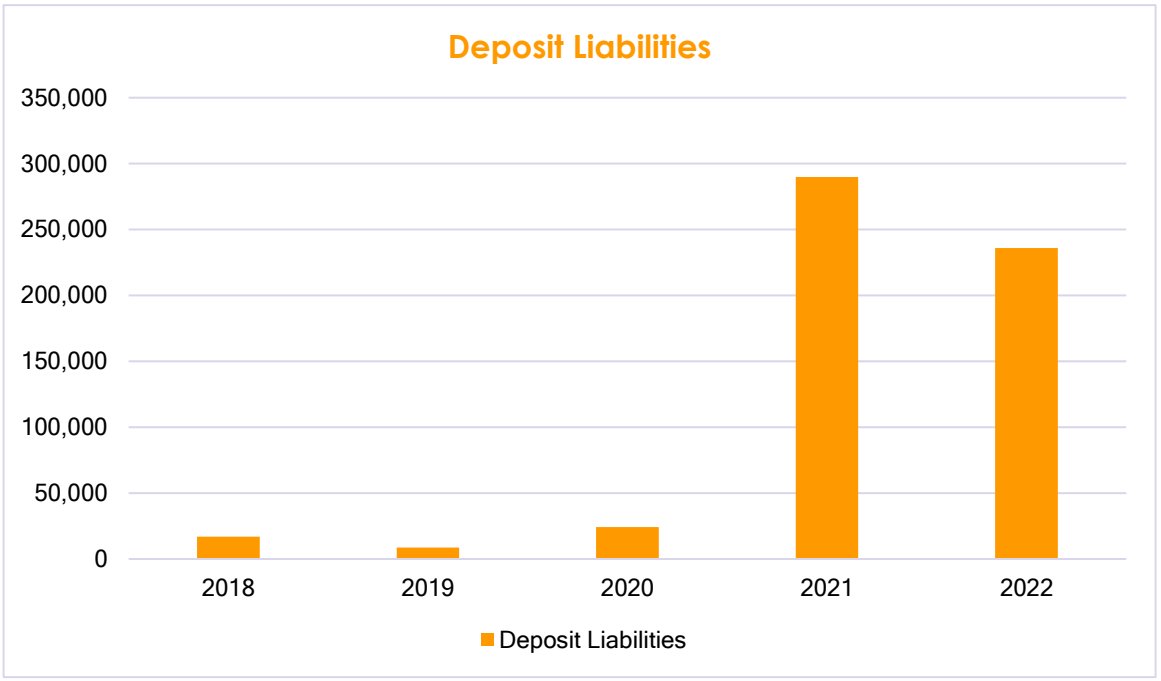
	2018	2019	2020	2021	2022
ASSETS (in thousand pesos)	47,406	83,424	126,013	539,445	485,449
Growth Rate	-2%	76%	51%	328%	10%



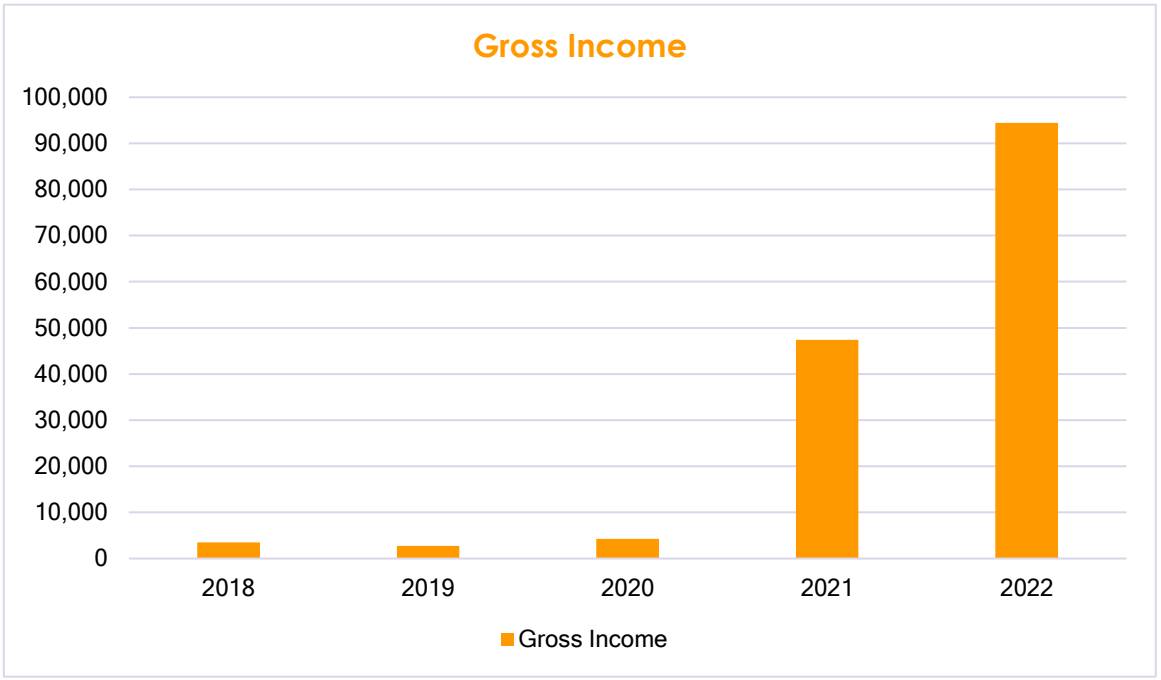
	2018	2019	2020	2021	2022
Cash and Investments (In thousand pesos)	14,743	58,381	53,763	299,822	172,119



	2018	2019	2020	2021	2022
Loans and Receivables (In thousand pesos)	26,791	9,826	16,475	182,277	251,263



	2018	2019	2020	2021	2022
DEPOSITS (In thousand pesos)	16,937	8,778	24,309	289,779	236,033



	2018	2019	2020	2021	2022
GROSS INCOME (in thousand pesos)	3,520	2,746	4,269	47,408	94,432
Growth Rate	-3%	-28%	36%	91%	50%

CORPORATE GOVERNANCE



Welcome Bank is committed to adhere to good corporate governance principles of fairness, accountability and transparency in all its dealings, ensuring a high degree of integrity in the conduct of all its affairs and in achieving organizational efficiency.

The Board of Directors is primarily responsible for upholding the highest standards of corporate governance and is accountable to its shareholders for creating and delivering strong, sustainable financial performance and long-term shareholder value and ensuring that the Bank is steadily run in a prudent and sound manner with honesty, integrity and professionalism.

The Board determines the goals and policies of the Bank geared towards promoting long-term growth, delivering short-term objectives and providing overall strategic direction.

The Board of Directors' functions of (a) defining the Bank's vision and mission; (b) formulating and implementing strategies, plans and operating procedures; and (c) defining the corporate culture and values through a well-crafted code of conduct and ethical standards to ensure that (1) its operations are carried out with a high degree of integrity; (2) protected from all kinds of risks – reputational risks, operational risks, legal risks, foreign exchange risks, interest rate risks, credit risks, etc.; and (3) its goals and targets are attained.

The role of the Chairman is to ensure the effective functioning of the Board, maintaining a relationship of trust with board members. He makes sure that a sound decision making process is in place by encouraging critical discussions, with views expressed and discussed and independent views given due respect and consideration. The Chairman is assisted by a Corporate Secretary who is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and Committees as well as the records of the corporation.

Supervisory Assessment Framework

The Supervisory Assessment Framework (SAFr) is the Bangko Sentral ng Pilipinas' (BSP) risk-based supervisory framework. It aims to facilitate robust, dynamic and forward-looking assessments of BSP-Supervised financial institutions (BSFIs). It explicitly links the systematic importance and risk profile of a BSFI to the crafting of supervisory plans for each supervised institution such that: (i) supervisory attention continues to be proportionately focused on financial institutions that are of greater impact and higher risk; and (ii) prompt and calibrated enforcement actions are deployed to reinforce prudent risk-taking behavior.

The principles, concepts and processes of the SAFr apply to all BSFIs, regardless of size and risk profile. It also facilitates the conduct of consolidated supervision, where impact and risks are viewed on a group-wide basis.

The SAFr incorporates three major elements: (a) the BSFI's impact to the financial system; (b) the BSFI's risk profile, and (c) supervisory intensity.

Significant activities are assessed in terms of the risks that they attract. The risk categories are: (a) Credit Risk; (b) Market Risk; (c) Operational Risk; (d) Market Conduct Risk; (e) Liquidity Risk; (f) Interest Rate Risk in the Banking Book; (g) Information Technology Risk; and (h) Money Laundering/Terrorist Financing Risk.

A net risk rating shall be assigned to each risk category, which pertains to the residual risk after considering the mitigating effect of risk management. The rating will be Low, Moderate, Above Average or High. Separate ratings (Strong, Acceptable, Inadequate or Weak) for compliance and internal audit are assigned to capture the extent of their effectiveness. The net risk assessments and the assessments of the compliance and internal audit functions are taken together in order to come up with an assessment of the BSFI's overall net risk. This will either be Low, Moderate, Above Average or High.

The BSFIs risk buffers or institutional level support consist of capital, earnings, liquidity and governance. They are assessed as Strong, Acceptable, Inadequate or Weak. Earnings capital and liquidity are sources of financial strength of the BSFI, and underpin its safety and soundness.

The assessments of overall net risk and institutional level support are combined to determine the Composite Rating of the BSFI. The Composite Rating of the BSFI represents a judgment of the resilience of the BSFI to adverse business and economic conditions. The composite risk rating ranges from 1 to 4, with BSFIs rated 4 being those that are deemed most resilient to adverse events. In principle, between two BSFIs with the same overall net risk, the BSFI with the better institutional level support rating would be more able to withstand shocks and therefore would merit a stronger composite rating. The descriptions of the composite ratings are as follows:

Composite Rating	Description
4	The BSFI is robust. Risks are well managed across the organization. There are no imminent threats to its safety and soundness. It has ample buffers and can withstand most adverse events.
3	The BSFI is stable. Risks are adequately managed across the organization. Supervisory concerns are within the ability of the board and management to address. The BSFI's buffers will enable it to withstand most adverse events.
2	The BSFI is vulnerable. Risks are not well managed in the organization. Supervisory concerns are not immediately given attention. The BSFI has minimal buffers and the occurrence of an adverse event is likely to pose a threat to its safety and soundness.
1	The BSFI is distressed. Risks are beyond the capability of the board and management to address. The BSFI's inherent risks pose a threat to its safety and soundness. It is not likely to withstand adverse events.

Board and Senior Management

The Bank is a joint-venture between two investors – Welcome Capital Worldwide PTE.LTD. and Flowtiger Ventures, Inc., the two major shareholders are the parties that elect and appoint board members and senior management. All elected and appointed board of directors and officers, shall be reviewed and confirmed by the BSP, based on the fit and proper criteria of the regulations.

With the change in ownership structure of the Bank, the Articles of Incorporation and By-laws of the Bank has been amended on 19 August 2019 such that the Board of Directors of the Bank is composed of five (5) directors including one independent director vs. previously nine (9) director members. Out of total 5 directors, 3 directors were nominated by 60% stakeholder, Welcome Capital Worldwide PTE. LTD. while the remaining 2 directors nominated by 40% stakeholder, Flowtiger Ventures, Inc.

Selection Process for the Board and Senior Management

Given that the Bank is a joint-venture between two investors –Welcome Capital Worldwide, PTE. LTD. and Flowtiger Ventures, Inc. the two major shareholders will be the party that recommends Board members and senior management. Upon recommendation by the two parties, the Compliance Team will, first of all, review whether each candidate for the position suits criteria of fit and proper standards for the Bank. If any deficiency with a candidate is found, the Compliance Team will advise the recommending party of the unfit point of the candidate and ask for recommendation of the replacement.

Qualifications of a Director

A director shall have the following minimum qualifications:

- ✓ He must be fit and proper for the position of a director of the Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity; physical/mental fitness; relevant education, financial, literacy, training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities; and concurrent positions in the same BSFI and interlocking positions in other entities that may pose conflict of interest.

- ✓ In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

- ✓ An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the disqualifications. He shall submit to the BSP the required certifications and other documentary proof of his qualifications within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the Board.

- ✓ The members of the Board shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

- ✓ Unless otherwise exempted by existing regulations, he must have attended a seminar on corporate governance for Board of Directors. A director shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance

Member of the Board of Directors



Saeyoung Chang
Chairman of the Board

Since April 2004, he has worked for Welcome Creditline Corp. and was appointed as CEO of the company in May 2014. He has been also servicing as a director of Korea Consumer Finance Association since January 2015. He graduated from Law School of Korea University in February 1987 and obtained a master degree from University of Florida, U.S.A. in June 2002 on real estate and finance.

Suk Sub Shim
President and CEO



From December 2015 to August 2019, he has served as President of Welcome Finance, Inc. Upon resignation from the same position, he was elected as President and CEO of Welcome Bank (Rural Bank), Inc. He graduated from Seoul National University on Economics & Business Administration in February 1985 and obtained a master degree on Business Administration from University of Washington in 1996. Since January 1985, he has work from various industries and with 14 years working experience in leasing and financing industry as Finance Manager in Korea Development Leasing Corp. He was the Country Manager for Medical Equipment Credit from 2001 to 2003 and De Lage Landen in Korea from 2004-2006. He also served as Treasurer of Renault Samsung Motors Co., Ltd. From 2003-2004.



Job Adrian Mesina Ambrosio
Director

From June 2006 to May 2014, he served for PJS Law as a partner. He has been President and Managing Director of Flowtiger Ventures, Inc. since October 2013. He graduated from Ateneo de Manila University on Economics in 1994. He obtained a master degree from Ateneo de Manila College of Law in 1998.

Kyochan An
Director & Division I Head



He is a graduate of Bachelor in Conservation Cultural Property from Yong-In University in 2004. From year 2007-2021, he has worked for Welcome Financial Group and rose from the ranks from an Associate to Branch Manager, Loan Center Manager, Call Center Manager, General Manager, Senior Manager of Welcome Creditline Corp. and Welcome Savings Bank. He was also appointed as Director of Welcome Leasing Lao Co., Ltd. from 2018-2020. Started as a Division Head of Welcome Bank (Rural Bank), Inc prior to his election and appointment as Director on September 30, 2021.



Edward Sembrano Relucio
Independent Director

Since he was admitted to Philippines Bar in 2001, he has accumulated various experience working for PJS Law and Department of Transportation and Communications as a legal officer or legal consultant. He graduated from Ateneo de Manila College on Psychology in 1996 and obtained a master degree from Ateneo de Manila Law School in 2000.

2022 Attendance of the Members of the Board

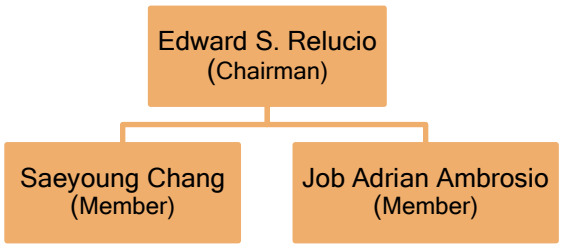
Directors	Attendance	%	Years as Director
Saeyoung Chang	9	75%	4
Suk Sub Shim	12	100%	4
Kyochan An	12	100%	1
Job Adrian M. Ambrosio	12	100%	4
Edward S. Relucio	12	100%	4

Board-Level & Management Committee

Composed of highly skilled, knowledgeable and experienced business professionals and leaders to steer the Bank's Strategic Direction, the Board established committees that provide in-depth focus on specific areas of Board responsibility.

Audit and Compliance Committee (ACC)

The Audit and Compliance Committee is responsible for reviewing and approving for annual audit plan as well as for deliberating issues and resolutions observed in the process of audit activities. The overall issue items and recommendations by the Audit and Compliance Committee will be reported to the Board quarterly. The management is responsible for implementing action items recommended by the Audit and Compliance Committee to better manage and control corporate governance and to improve overall financial performance of the Bank. The Audit and Compliance Committee is composed of the following three (3) members.



Organization and Structure

The Board of Directors is responsible in upholding the highest standards of corporate governance and is accountable to the Bank's shareholders for creating and delivering strong sustainable financial performance and long-term shareholder value. The Board determines the goals and policies of the Bank to promoting long term growth, delivering short-term objectives, and providing overall strategic direction within a framework of rewards, incentives and controls. The Board receives comprehensive reports covering all of principal risks; control issues of significance and regulatory reports from the Internal Audit and Compliance Office. In depth reports dealing with relevant specific issues are reported to the Board.

The Internal Audit, independent of any other functions, shall conduct periodic reviews on the effectiveness of risk management across the Bank and to disseminate its audit findings to relevant

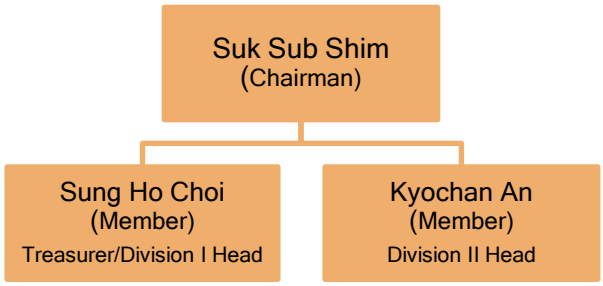
departments and management. The Internal Audit strengthens the Bank's internal controls by identifying key risks points in the overall internal control framework by systematically reports the issues which deserve management's attention and to make recommendations for improvement.

The Bank is fully aware that strict adherence to compliance requirements and high standards of integrity and ethical conduct is particularly important to its operations. The Compliance Office ensures that effective compliance policies and procedures are followed and the management takes appropriate corrective action when non-compliance is identified. The Compliance Office reports directly to the Audit and Compliance Committee and provides guidance and advice in the execution of compliance measures and activities integral to the operations of the Bank.

Executive Committee (ExCom)

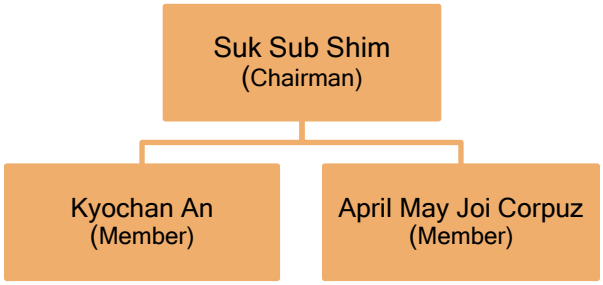
Executive Committee is appointed by the Board of Directors and the President and Chief Executive Officer is delegated the responsibility to oversee the day-to-day operations of the Bank, as well as manage and implement its business plan and strategies. The Executive Committee ensures that matters related to strategic direction and management receive close attention at the executive level. It also supports a delegated and coordinated decision-making approach.

The Executive Committee is tasked to ensure that the overall business operations of the Bank are well managed and compliant to various rules and regulations of the supervising regulatory body, Bangko Sentral ng Pilipinas (BSP) and other governing agencies. The appointed members are delegated to be jointly responsible for overseeing the day-to-day operations of the Bank as well as manage and implement its business plans and strategies. Three executive officers, the President and two (2) Division Heads who are at the helm of the Bank's operation composed the Executive Committee.



Credit Committee (CreCom)

The main responsibility of the Credit Committee is to monitor market risk, interest rate risk, credit risk, and liquidity risk and give guidelines to tackle with potential risks detected. Another function of the Credit Committee is to review and approve for high exposure loan transactions above 1 million Pesos while exposures of 1 million Pesos or less is delegated to management or credit team head for approval authority. The Credit Committee of the Bank is composed of the three (3) members.



Management Committee (ManCom)



Main functions of the Management Committee are to initiate, design, review, updates and revises all bank systems and operating procedures including all operating manuals for approval of ExCom and confirmation of the Board. Also, the review and concur in all proposals regarding reports, form, system and methods from other sources. More importantly, the reporting and updates on strategic plans vs actual performance of each department. Management Committee composed of the different managers and team leads ensures that all Bank's action and efforts remain coordinated and customer-focused.

The ManCom provide integrity and direction to the Bank as a whole by fostering an organizational culture that is market-driven and customer centered, applying a participative management style at all levels, and building banking strategies that sustain high-levels of growth.

Performance Assessment Program



To assess the performance of the management, the Bank set out a few goal criteria by which such can be measured. In ordinary times, the Bank will consider the following items critical goals in the performance assessment.

- Volume of the loan disbursed for the year
- Delinquency rate (overdue 10 or more days) of the loan portfolio
- Deposit Outstanding – average of each month-end for the year
- Operating profit before tax

At the beginning of each year, the Bank will set up the target for each goal items. Performance of the management will be assessed at the close of the year how much each of the goal has been achieved for the year. Based on the performance assessment outcome, the Bank will set up the targets of the following year as well.

Orientation and Education Program



All elected and appointed director by Shareholders have already attended the Corporate Governance Orientation Program and AMLA Seminar as required by BSP prior to confirmation.

Retirement and Succession Planning



Senior management of the Bank will be entitled to work for the company until the age 65. In the event of early retirement before age of 65, the shareholder shall nominate a candidate replacing such a retired management and the appointment of the candidate should be approved by majority of voting in the shareholder's meeting. Except unplanned retirement of a senior management or a director, the Bank will establish succession plan from minimum 1 year before a senior management or a director reaches at retirement age.

The term of director is 1 year, and any of the legacy director can be re-appointed without any restriction to total years of renewed term as long as the shareholders approves it by majority of voting shares. The independent director shall serve for a maximum term of nine (9) years and can no longer be an independent director can be elected and serve as director.

The Remuneration Policy



The remuneration and other incentives policy of directors shall be submitted for approval of the shareholders. The Board shall ensure that the policy is consistent with the long-term interest of the Bank and does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

Executive Directors: The financial and operational performance assessment for the previous year as well as remuneration range of the competitors in the market will be considered when determining and approving the total remuneration. President/CEO and Treasurer are executive directors, who are dedicated to full time service for the Bank.

Non-executive Directors: The non-executive directors receive minimal fees/per diem for attendance in meeting of the Board and its Committees. They have no other compensation or arrangement with the Bank.

Senior Manager Positions or Team Leader Positions: The remuneration of senior manager level positions will be determined every year based on mixture of consideration of performance evaluation, market average salary increase rate, and current compensation. HR Manager will work on the compensation package to be offered to the senior manager based on the said streamline and President/CEO will approve for the compensation that is recommended by HR Manager.

Policy on Related Party Transactions



The Bank recognizes that Related Party Transactions (RPT) may give rise to conflict of interest, thus, the Board of Directors is tasked to review related party transactions of the Bank if the consequence of RPT brings any potential impact on any of the transacting party. They ensure that transaction with related parties and DOSRI are handled on a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

An overarching Related Party Transactions Policy Guidelines was approved by the Board on October 8, 2020 and incorporated under the revised Corporate Governance Manual. This will ensure the effective compliance with existing laws, rules and regulations of handling of RPTs; conduced on arm's length basis and that no stakeholder is unduly disadvantaged.

Identification of RPTs is the responsibility of the business unit concerned. Upon determination full disclosure and reporting of the Bank's RPT dealings based on board approved policies. The Board shall review and approve RPT dealings of at least P1.0 million during the regular board meetings upon approval and endorsement of the CreCom/ExCom. The bank shall submit a report on material exposures to related parties and RPTs of non-bank financial subsidiaries and affiliates within twenty (20) calendar days from end of the reference quarter.

Self-Assessment Functions



The Internal Audit & Compliance Team of the Bank, composed of minimum 3 personnel including Team Head. The Audit Team is responsible for setting up annual audit plan and or conducting the internal audit as planned. The main objective of the audit function is to investigate into if there is any work done in violation of internal policy and/or if there is anything non-compliant with government regulations. Detection of any fraud or malicious transaction is another role of audit team. The secondary objective of audit team is to envisage process improvement to bring efficiency or productivity enhancement, based on the observations earned in the course of audit.

The Bank's Compliance headed by the appointed and confirmed Chief Compliance Officer. The Compliance Office is tasked to review, monitor, and control such that the services and works are always in compliant with relevant regulations as well as internal policies. One of the main responsibilities of the team is to ensure various kinds of required reports be submitted to government authorities within designated timeline.

Welcome Bank's Internal Audit Head (IAH) and concurrent Chief Compliance Officer (CCO) assessed both the audit and compliance functions of the banking carrying out he board-approved audit and compliance plan.

Dividend Policy



It is understood by shareholders that the Bank will not release any dividend until accumulated earnings level is substantial. It is to support for the Bank to have strong capital position and thereby protect deposit customers. Even when the Bank has accumulated substantial earnings, the releasable dividend will be limited to 50% of total earnings of the previous year. In case that the Bank plans to release dividend, it should be pre-discussed with shareholders and the decision on the dividend shall be approved in annual shareholders' meeting.

Sustainable Finance Framework



Welcome Bank commitment to sustainability is fostered at the Board level. The backbone of the bank's commitment to sustainability is the 17 United Nations Sustainable Development Goals (SDGs).

The corporate sustainability starts with our value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption. As a responsible business, we enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, we are not only upholding the basic responsibilities to people and planet, but also setting the stage for long-term success.

Welcome Bank's commitment to sustainability is fostered at the board level and transcends to the senior management and employees. The Welcome Bank is committed to:

- ✓ Respect and protect the environment;
- ✓ Provides product and services that contribute to the welfare of the people, the environment and the economy;
- ✓ Implement inclusive socio-economic programs and initiatives;
- ✓ Foster in-house learning, capacity build-up management, and leadership in sustainability issues;
- ✓ Instill awareness about sustainability programs and initiatives within the Bank's organization and to its investors, clients, and other stakeholders;
- ✓ Put in place Corporate Social Responsibility (CSR) program inclusive of the commitment to donating circa 1% of annual net profit of the Bank to social welfare institution or similar.

Environment and Social Risk Management Framework



Welcome Bank integrates sustainability considerations and objectives into its business strategy and actively manages social and environmental risks associated with its business engagements. In doing so, the bank mitigates risks; it also contributes to positive change by supporting clients that seek continuous improvement in environmental and social practices.

The Bank's Environmental and Social Risk (ESR) Framework applies to all its businesses and products. The Framework has been developed to promote informed decision-making that is consistent with these principles and with the commitment in providing responsible financial services. The bank will work with clients to promote environmental and social improvements and aims to avoid entering into business engagements that do not comply with the ESR Framework. The Bank recognizes that climate change and environmental hazards could pose significant risks to the safety and soundness of individual financial institutions and the entire financial system.

Environmental, Social and Governance Management

Welcome Bank is striving for a future where coexist with sustainable management.

Environment

- The bank will expand green finance by reducing carbon emissions and building eco-friendly financial partnerships.
- The bank regularized the ESG Campaign "Welcome Green Day" WB has designated every Tuesday as WELCOME Green Day to actively encourage employees for the campaign to reduce disposable products through partnership with industries to lessen water pollution in recycling of single-use plastic products, all collected disposable plastic products will be converted to reusable products instead.
- The expansion of ESG Value Investment - WB is expanding its investment in sustainable social contribution companies such as electric vehicles, environmental facilities, services, and renewable energy through ESG evaluation-based investment strategies.
- Environmental Protection Campaign - WB is taking the lead in protecting the environment through an ongoing preservation campaign as part of the ESG management. WB employees are encouraged to join tree planting activities to protect the environment especially in preserving the watershed and forest areas (e.g., La Mesa Watershed)

Social

- The Bank will fulfill our corporate social responsibility through win-win support for the socially vulnerable.
- The operation of Welcome Scholarship Program-WB will launch the Welcome Scholarship Program in 2024. The bank resumes its loan businesses and its operation in October 2020 Once the health condition of the country normalizes, the Bank will make it regular that the Bank employees participate in volunteer activities for the community at least once a year. Bangjeonwhan Scholarship Program, which has been rolled out in Korea, will also be made available to give financial aid to the children of selected Bank's customers. We will provide a systematic, highly professional curriculum under the group's full support, such as financial specialist courses and digital specialist courses for the training of global digital finance professionals.

Governance

- Welcome Bank aims to be a company that can be trusted by establishing advanced corporate governance and practicing compliance and ethical management.
- The operation of whistleblowing policy-The Whistleblowing Policy is to enable any concerned individual to report and provide information, anonymously if he/she wishes, and even testify on matters involving the actions or omissions of the Directors/Trustees, Officers, and Employees of the Authority that are illegal, unethical, violate good governance principles, are against public policy and morals, promote unsound and unhealthy business practices, are grossly disadvantageous to the Authority and/or the government.
- Strengthening the professionalism, diversity, and fairness of the composition of the board of directors- Diversity, professionalism, and fairness are the core values of the composition of the WBI's Board of Directors. The board of fairly selected experts from various fields is implementing reasonable and efficient decisions on the agenda.

Corporate Social Responsibility Initiatives



The **Plastic Flamingo**, also known as The Plaf is Welcome Bank (Rural Bank), Inc.'s avenue is taking its small step in enhancing its Corporate Social Responsibility.

The Plaf, is a socio-enterprise advocate that desires to lessen marine plastic pollution. Welcome Bank (Rural Bank), Inc. partnered with them hoping that by doing such an act, it could at least contribute by not adding up more plastic pollution to the ocean. Through employee engagement, Welcome Bank (Rural Bank), Inc. is creating environmental awareness within its operations but also investing in the implementation of ESG practices to ensure it has done its part in continuing its business with a more responsible approach.

"Protect a Hectare Project" Tree Planting 2022



Welcome Bank (Rural Bank), Inc had its first tree planting event last July 16, 2022. Both excitement and eagerness to contribute something to the environment were both felt as all the participants headed to La Mesa Watershed Nature Reserve in Quezon City.

This Welcome Bank's environmental project is more than just a CSR event, but a significant learning as to how such tree planting plays an essential role in the life of the people that La Mesa serves. It opened awareness among the participants how a single type of tree produces something useful that most people would only take for granted.

Affiliation

RBAP
Rural Bankers Association of the Philippines

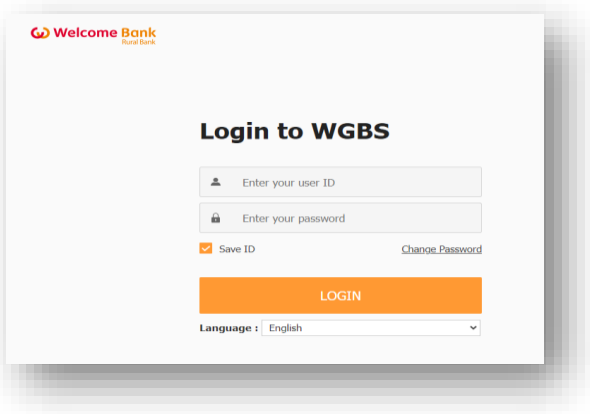
BANKERS ASSOCIATION OF THE PHILIPPINES

CREDIT INFORMATION CORPORATION

The Bank is a member in good standing of the Rural Banker's Association of the Philippines (RBAP). It is also affiliated with the BAP Credit Bureau, Inc. (BAPCBI) and Credit Information Corporation (CIC) where negative information as well as credit outstanding with other financial institutions on prospective borrowers can be downloaded thru their website upon authorization.

Management Information System (MIS)

Complete, timely and accurate information are readily available to the Board of Directors that enable them to make a well-informed judgment. This is made possible through WGBS System which is the combination system made from WBIS (Loan System) and Express-O (Core Banking System). This warrant that accurate information reaches the Board and Stakeholders in a timely manner.



Accountability and Audit



It is imperative to provide a balanced and comprehensive assessment of the Bank's performance, position and prospects on a periodic basis including the reportorial requirements of the regulatory bodies. The Bank's internal control system is a process designed and effected by the Board of directors and senior management to provide reasonable assurance on the achievement of objectives through efficient and effective operations.

COMPLIANCE

Statement of Compliance Policies



The established dynamic and responsive Compliance Risk Management System (CRMS) reinforces the stature of the Chief Compliance Officer with responsibilities of managing and monitoring compliance matters in all bank's business activities. The CRMS is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal and regulatory sanctions, material financial loss, loss to reputation that the Bank may suffer as a result of failure to comply with laws, related self-regulatory organization standards, code of conduct applicable to its activities. The compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risk arising from money laundering and terrorist financing activities. The CRM should be an integral part of the culture and risk governance framework of the Bank. In this respect it shall be the responsibility and shared accountability of all personnel, officers and the board of directors

Money Laundering & Terrorist Financing Prevention Program (MTPP)



Welcome Bank adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) geared towards the promotion of high ethical and professional standards and the prevention of the Bank being used, for money laundering and terrorism financing. It is the policy of the Bank to conduct business in conformity with the highest ethical standards in order to protect the reputation and integrity of the banking system, to protect the Bank from becoming a vehicle or conduit for or a victim of financial crime, and to protect the interests of the Bank's stakeholders.

It is critical that the Bank should be always compliant with AML / TF regulation. The Chief Compliance Officer is responsible for monitoring if there is any point that is not compliant with the regulation. To keep all employees of the Bank aware of requirements under the concerned regulation, the Bank will conduct AML/TF refresh training annually. The key point with the anti-money laundering /terrorist finance is to proceed with all account opening and loan transactions on the condition of face-to-face validation of the customer identity at the commencement of the relationship with the customer. The bank adopted the AML Risk Score Sheet that aids the banking units in profiling their customer/clients during account opening/onboarding and application for loans. It is also important to know the purpose of any transaction with the Bank and to monitor if it is properly observed. Post conducting customer due diligence, any covered transaction and suspicious transaction shall be reported to Anti Money Laundering Commission (AMLC) within 5 working days as required by the law.

Consumer Protection and Data Privacy



The Board of Directors of the Bank approved for adoption the Consumer Protection Manual and Data Privacy Manual in accordance with the BSP regulations to provide for an enabling environment that protects the interest of financial consumers and institutionalize the responsibilities of all stakeholders and in accordance with the National Privacy Commission (NPC) policies that ensure protection of the rights of the subject from undue disclosure of personal data without consent.

Framework:

- Disclosure and transparency – The Bank provide financial consumers with all material details of an instrument or service before a transaction is consummated.

- Fair treatment – The Bank determines whether the product or service offered is suitable to the risk and financial profile of the consumer. The Bank also considers the selling practice of employees and possible indebtedness of the financial consumer.

- Protection of client information – In accordance with the Data Privacy Act of 2012 (RA #10173), the Bank recognizes the importance of protecting the personal data of its customers, hence, information on a customer is not shared without his/her consent.

- The Bank believes in promoting financial education and awareness, and ensuring that this is one of the components of the Bank's good governance.

- Effective recourse complaint is seen as an opportunity of review process; identify root cause and work to improve processes thereby preventing its recurrence and providing a long-term resolution of a particular issue.

The Board is responsible for ensuring that consumer protection practices are embedded in the Bank's business operations, adhering to highest service standards and embracing a culture of fair and responsible dealings in the course of conducting its businesses.

CAPITAL STRUCTURE & CAPITAL ADEQUACY

As at December 31, 2022 and 2021, the Bank complied with the capital adequacy ratio (CAR) prescribed by the BSP. The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

	2022	2021
Tier 1 Capital		
Common Stock	**P100,000,000**	P100,000,000
Deposit for future stock subscription	**74,939,894**	-
Deficit	**(38,504,167)**	(12,868,795)
Comprehensive loss for the year	**(7,097,303)**	(25,635,372)
CET 1	**129,338,424**	61,495,833
Less deduction from Tier 1 Capital		
Deferred tax asset	**16,428,777**	13,443,195
	112,909,647	48,052,638
Tier 2 Capital		
General Loan Loss Provision	**2,337,996**	1,680,738
Total Qualifying Capital	**P115,247,643**	P49,733,376
Risk-weighted assets	**P490,420,050**	P522,427,422
Capital Ratios		
Total CET 1 capital expressed as percentage of total risk weighted assets	**26.37%**	11.78%
Total Tier 1 capital expressed as percentage of total risk weighted assets	**23.02%**	9.20%
Total regulatory capital expressed as percentage of total risk weighted assets	**23.50%**	9.52%

RISK MANAGEMENT FRAMEWORK



Risk Management is a fundamental process in understanding and controlling the risks inherent to the Bank's everyday management of its business. The Bank ensure that it has functional capacity to manage the inherent risks in its new and existing business products and services and operations.

The Bank's risk appetite as set forth by the Board took into account the business environment, regulatory landscape, and its long-term interests and ability to manage risk.

Responsibility for risk management rests at all level within the Bank, the Board of Directors and Senior Management down through the organization to each manager and business associate.

Everyone in the organization is expected to proactively manage the risks inherent in their respective areas of operation. It aims to embed a risk management culture that seeks to constantly identify, measure, control, monitor and evaluate risks within the Bank.

The Board of Directors is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Bank. It also has the responsibility for the development of risk strategies, principles, frameworks, policies and limits.

Risk and Appetite Strategy

The Bank's risk appetite as set forth by the Board took into account the business environment, regulatory landscape, and its long-term interests and ability to manage risk.

Considering that the loan market targeting at low-risk premium customers is already saturated and dominated by large commercial banks, the Bank's strategy is to undertake medium risk customers and thereby to contribute to expanding the population of financial inclusion. Hence, the risk appetite of the Bank will be more flexible and accommodate wider range of credit-profile customers than commercial banks. However, noting that the risk of delinquency with this category customers will be higher than premium customers, the Bank will be opted to charge relatively higher interest rate on the loan to medium risk customers with a view to covering the loan loss provision expected substantial. Once sufficient data on the co-relationship between credit risk and yield on the loan transaction is accumulated, the Bank will be able to more easily look at what interest charge will be appropriate to respective customers of different credit risk profiles.

Bank-wide Risk Governance Structure and Risk Management Process

The Bank's Credit Scoring System (CSS) runs from 1 to 7 – 1 lower risk and 7 for highest risk. The loan applicants with a rating 6-7 will be declined unless level of comfort in terms of debt repayment capability on cash flow is proven acceptable.

The loan applicants with a rating 1 to 5 will be approved unless a significant weakness not captured in CSS is found. Aside from the CSS, the Bank uses the CIBI, FinScore and NFIS in credit risk assessment.

The maximum loanable amount to an applicant will be basically determined by Debt Burden Ratio (DBR) of the applicant, which represents the ratio of how much of money should be paid per month for repayment of all debts including the borrowings from other financial institutions out of monthly total disposable income. On consumer loans, the following table is an illustration of what are maximum DBRs allowed in several categories of net monthly income.

NMI (in Php)	Maximum DBR allowed
NMI < 30K	30%
30K ≤ NMI < 50K	35%
50K ≤ NMI < 70K	40%
70K ≤ NMI < 100K	45%
100K ≤ NMI < 150K	50%
150K ≤ NMI < 200K	55%
200K ≤ NMI < 300K	60%
300K ≤ NMI < 500K	65%
NMI ≥ 500K	75%

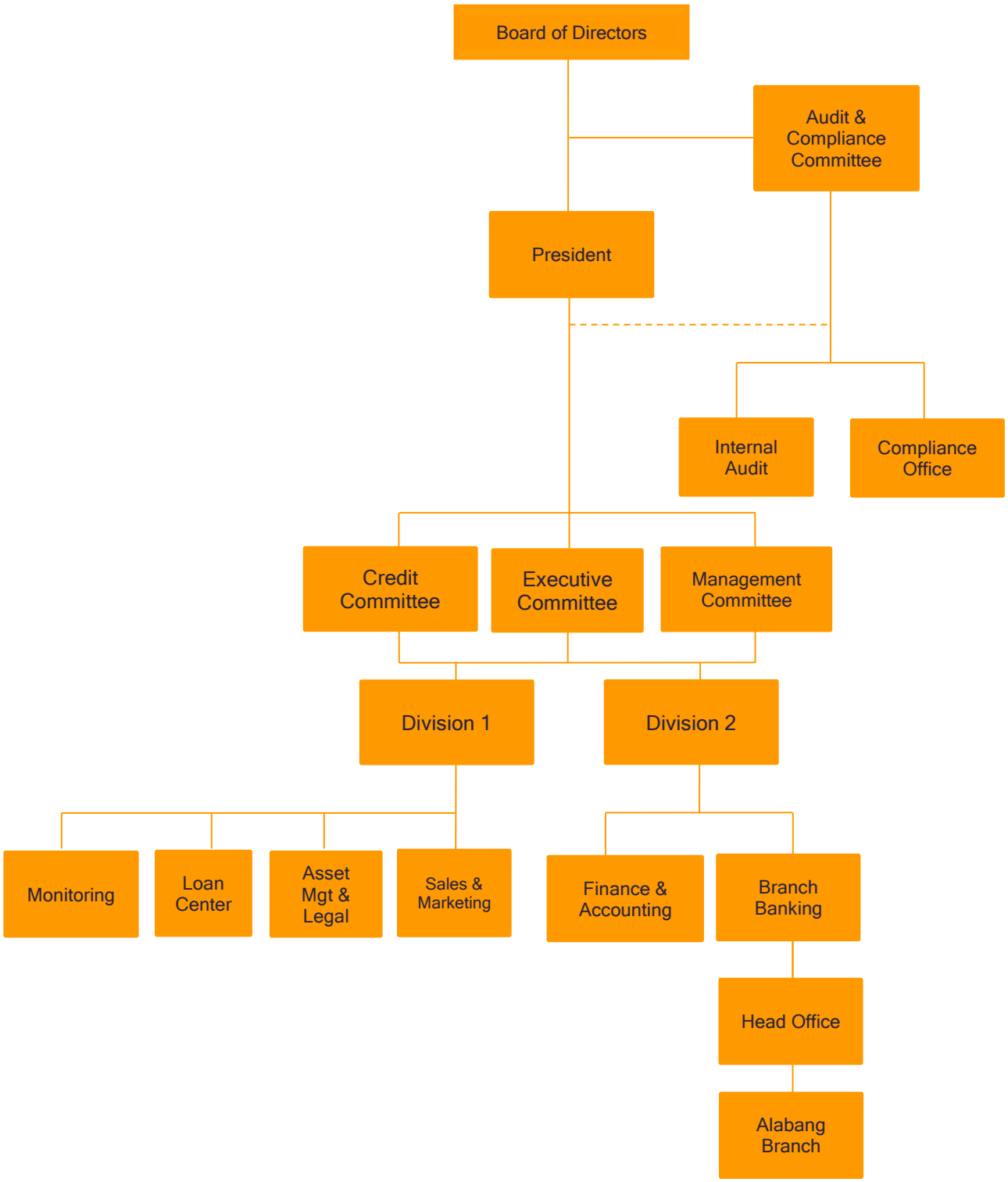
DBR (Debt Burden Ratio) +Total Monthly Installment Payment/Net Monthly Income

All loan applications are analyzed and reviewed by Credit Team, and final approval by Credit Committee. However, for the purpose of reducing turn-around-time for the customers' convenience and also considering the managing the load appropriately, approval authority for small exposure transactions is delegated to executive or loan center team head depending upon exposure magnitude of a customer or a group of customers, as illustrated below, which was approved by Board of Directors.

Approval Authority	Approval Limit
Board of Directors	Excess P10,000,000
Credit Committee	Excess P1,000,000 – P10,000,000
President	Excess P400,000 – P1,000,000
Division Head	Excess P100,000 – P400,000
Loan Center Lead	Under P100,000

CORPORATE INFORMATION

Organizational Structure



Stockholders and Stockholdings

NAME	NATIONALITY	PERCENT (%) OF HOLDINGS
Welcome Capital Worldwide PTE.LTD.	Korean	60.0%
Flowtiger Ventures, Inc.	Filipino	40.0%
Saeyoung Chang	Korean	0.0%
Suk Sub Shim	Korean	0.0%
Kyochan An	Korean	0.0%
Job Adrian M. Ambrosio	Filipino	0.0%
Edward S. Relucio	Filipino	0.0%
Total		**100%**

Products and Services

Deposit Products



Welcome Savings

Minimum Initial Deposit: Waived
Interest Earning Balance: Waived
Interest Rate: P1,000,000 up - 1.50% p.a.
P500,000 - P999,999 - 1.75% p.a.
P100,000 - 499,999 - 2.00% p.a.

Welcome Checking - Personal

Minimum Initial & ADB Deposit: P2,000
Interest Earning Balance (ADB): P5,000
Interest Rate: .50%

Safety Deposit Box

The Bank also offers deposit boxes in Alabang Branch and HO Customer Center for lease to valued customers at very affordable prices.

Welcome Checking - Corporate

Minimum Initial & ADB Deposit: P5,000
Interest Earning Balance (ADB): P25,000
Interest Rate: .50%

Welcome Time Deposit

Minimum Term: 30 days
Maximum Term: 4 years
Interest Rate:

Short Term				
Amount (in Php)	30 days	90 days	180 days	181-364 days
1-249,999	2.00%	2.25%	2.50%	2.75%
250,000-499,999	2.20%	2.43%	2.67%	2.90%
500,000-999,999	2.40%	2.64%	2.88%	3.13%
1,000,000-4,999,999	2.60%	2.88%	3.13%	3.43%
5,000,000-7,499,999	2.80%	3.08%	3.35%	3.63%
7,500,000-9,999,999	3.00%	3.36%	3.72%	4.08%
10,000,000 above	3.20%	3.55%	3.90%	4.25%

Long Term				
Amount (in Php)	1 Year	2 Years	3 Years	4 Years
1-249,999	4.00%	4.25%	4.50%	4.75%
250,000-499,999	4.25%	4.50%	4.75%	5.00%
500,000-999,999	4.50%	4.75%	5.00%	5.25%
1,000,000-4,999,999	4.75%	5.00%	5.25%	5.75%
5,000,000-7,499,999	5.25%	5.50%	5.75%	6.00%
7,500,000-9,999,999	5.50%	5.75%	6.00%	6.25%
10,000,000 above	6.00%	6.25%	6.25%	6.75%

Welcome Premium Time Deposit

Term: 5 years - Tax Free
Interest Rate:

Amount (in Php)	5 years and 1 day
1-249,999	5.00%
250,000-499,999	5.30%
500,000-999,999	5.60%
1,000,000-4,999,999	5.90%
5,000,000-7,499,999	6.30%
7,500,000-9,999,999	6.60%
10,000,000 above	7.00%

PHILIPPINE DEPOSIT INSURANCE CORPORATION
PDIC
Deposits are insured by PDIC up to P500,000 per depositor
Bank deposit mo, protektado!

Loan Products



Unsecured Loans

Personal Loan (PL)

Loan Amount: P50,000 – P1,000,000
Term: 12 – 36 months
Monthly Effective Interest Rate: 2.20% to 3.18%
Eligible Customer:
-With minimum Net Monthly Income (NMI) of P30,000
-Must be a permanent/regular employee.
-Must have an Existing locally-issued credit card, active for 1 year and with a minimum credit limit of P30,000.

Personal Happy Loan (PHL)

Loan Amount: P50,000 – P1,000,000
Term: 12 - 36 months
Monthly Effective Interest Rate: 4.32%
Eligible Customer:
-With Minimum Net Monthly Income (NMI) of P30,000
-Must be a permanent/regular employee.
-Must have an Existing locally-issued credit card, active for 6 months and with a minimum credit limit of P20,000.

Premier Personal Loan (PPL)

Loan Amount: P50,000 – P10,000,000
Monthly Effective Interest Rate: 2%
Eligible Customer:
-Customer can be Salaried or Self-employed Individuals
-Must have an approved Condo Mortgage Loan with Welcome Bank

Salary Loan (SL)\

Loan Amount: P50,000 – P500,000
Term: 12-36 months
Monthly Effective Interest Rate: 4.8% to 5.6%
Eligible Customer:
-With minimum Gross Monthly Income (GMI) of P30,000
-Must be a permanent/regular employee

Business Loan (BL)

Loan Amount: P50,000 – P1,000,000
Term: 12-36 months
Monthly Effective Interest Rate: 3.6% - 5.6%
Eligible Customer:
-With minimum Net Monthly Income of 100,000

Premier Business Loan (PBL)

Loan Amount: Up to P3,000,000 (Renewal)
Term: 12-36 months
Monthly Effective Interest Rate: 3.6% - 5.6%
Eligible Customer:
-With minimum Gross Sales of P2,000,000

Secured Loans

Auto Finance Loan (OR/CR)

Loan Amount: P100,000 – P1,000,000
Term: 12-36 months
Monthly Effective Interest Rate: 2.54% to 3.76%

Eligible Customer:

- ✓ Car Unit must be at least 10 years old and must be under client's name.
- ✓ Must have stable source of income

Auto Loan (2nd Hand)

Loan Amount: P100,000 – P1,000,000
Term: 12-48 months
Effective Interest Rate: 1.6% - 2.4%

Eligible Customer:

- ✓ Car Unit must be at least 10 years old and must be under client's name.
- ✓ Must have stable source of income

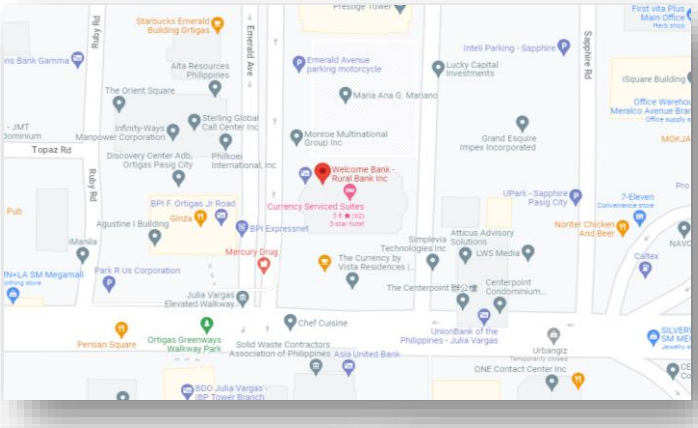
Condo Mortgage Loan (CML)

Loan Amount: P1,000,000 – P20,000,000
Monthly Effective Interest Rates: 2%
Terms: Option 1: 10 years (Fixed Term)
Option 2: 3 years (Interest only – Mortgage renewable every 3 years)
Collaterals: Residential Unit,
Commercial Unit (Borrower must be individual, not corporation)
Parking Unit (Must be in separate CCT)
Loan Purpose: Equity Loan (CCT under Borrower's Name)
Acquisition of Titled Condo Unit
Take-out Loan (Currently mortgage with other banks)

Branches and Offices

Head Office Branch

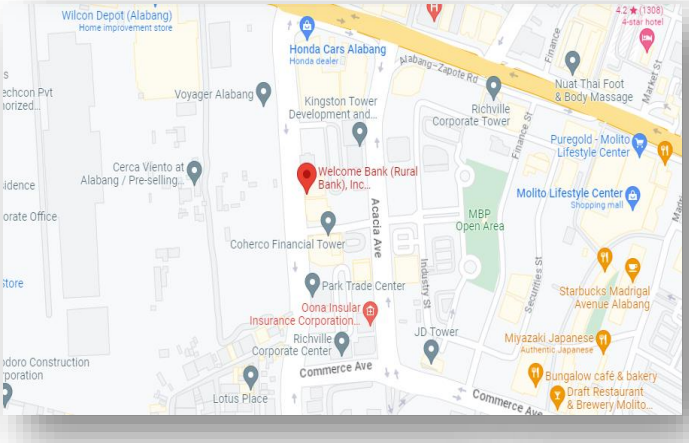
Unit 102-B, The Taipan Place Bldg., F. Ortigas Jr. Road corner, Ortigas Center, Brgy. San Antonio, Pasig City, 1605, Philippines
(02) 8282 8585
0917-701-9601
banking@welcomebank.com.ph





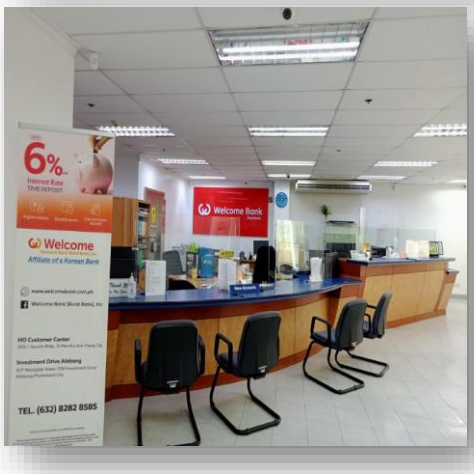


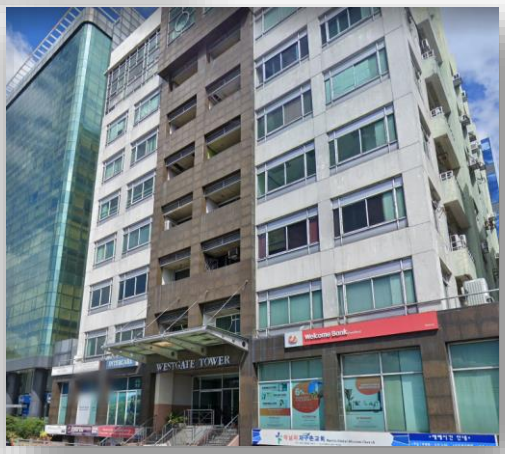


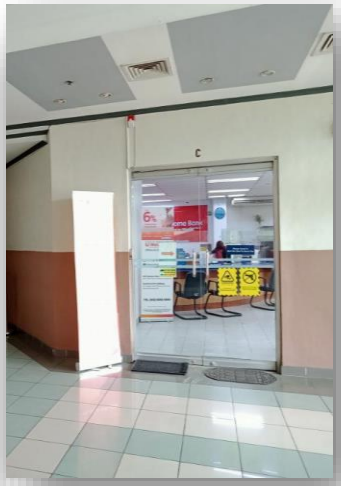


Alabang Branch

G/F Westgate Tower, 1708 Investment Drive, Madrigal Business Park, Muntinlupa City
(02) 8282 8585
0917-701-9260
banking@welcomebank.com.ph







AUDITED FINANCIAL STATEMENTS

As of 31 December 2022, and 2021

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: A 1 9 9 9 0 6 5 6 5

Company Name

WELCOME BANK
(RURAL BANK), INC.
(FORMERLY SMART BANK
(RURAL BANK), INC.)

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

UNIT 1701-1703
THE TAIPAN PLACE BLDG., F. ORTIGAS JR. ROAD
CORNER ORTIGAS CENTER
BRGY. SAN ANTONIO, PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
pjs-sec@pjscorp.com	8842-4074	0949-994-6305

No. of Stockholders	Annual Meeting (Month/Day)	Fiscal Year (Month/Day)
7	Last Thursday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Juliet R. Esperanza	cco@welcomebank.com.ph	8537-0269	0915-101-8848

CONTACT PERSON'S ADDRESS

UNIT 1701-1703 THE TAIPAN PLACE BLDG., F. ORTIGAS JR. ROAD CORNER ORTIGAS CENTER, BRGY. SAN ANTONIO, PASIG CITY

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuses the corporation from liability for its deficiencies.

Welcome
Welcome Bank (Rural Bank), Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

AMC & Associates, the independent auditor appointed by the stockholders has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing and in its reports to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

SAEYOUNG CHANG
CHAIRMAN

SUK SUB SHIM
PRESIDENT

SUNG HO CHOI
TREASURER

Signed this 20th day of March 2023

Unit 1701-1703, The Taipan Place Bldg. F. Ortigas Jr. Road cor. Ortigas Center, Brgy. San Antonio, Pasig City 1605
Tel No. 8282 8585 | Website: www.welcomebank.com.ph

Financial Statements

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)

December 31, 2022 and 2021

AMC & ASSOCIATES

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Welcome Bank (Rural Bank), Inc.
(Formerly Smart Bank (Rural Bank), Inc.)

Unit 1701-1703 The Taipan Place Bldg.,
F. Ortigas Jr. Road corner Ortigas Center,
Brgy. San Antonio, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)*, (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, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

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Certified Public Accountants

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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KAPIT KAMAY SA PAG-AHON
SIGOURNEY WENDELL B. UERAL (Collection Section)

AMC & ASSOCIATES

Certified Public Accountants

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 30 and the Bureau of Internal Revenue (BIR) as disclosed in Note 31 of the financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

AMC & ASSOCIATES

By: **Ariel D. Gonzales**
Partner
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 9566560, Jan. 3, 2023, Makati City
BIR Accreditation No. 08-003584-1-2021
(valid until Dec. 19, 2024)
SEC Accreditation No. 89570 (Group A)
(valid until Dec. 31, 2025)
IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

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SIGOURNEY WENDELL E. BERNAL (Collection Section)

March 20, 2023

AMC & ASSOCIATES

Certified Public Accountants

SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Welcome Bank (Rural Bank), Inc.
(Formerly Smart Bank (Rural Bank), Inc.)
Unit 1701-1703 The Taipan Place Building,
F. Ortigas Jr. Road corner Ortigas Center
Barangay San Antonio, Pasig City

We have audited the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* for the year ended December 31, 2022, on which we have rendered the attached report dated March 20, 2023.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Bank has two stockholders owning 100 or more shares each of the Bank's common stock, as disclosed in Note 21 of the financial statements.

AMC & ASSOCIATES

By: **Ariel D. Gonzales**
Partner
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 9566560, Jan. 3, 2023, Makati City
BIR Accreditation No. 08-003584-1-2021
(valid until Dec. 19, 2024)
SEC Accreditation No. 89570 (Group A)
(valid until Dec. 31, 2025)
IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

March 20, 2023

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Peso)

	2022	2021
ASSETS		
Cash *(Note 4)*	P 1,545,908	P 632,013
Due from Bangko Sentral ng Pilipinas *(Note 5)*	6,863,010	5,980,649
Due from other banks *(Note 6)*	162,945,208	292,239,099
Loans and other receivables *(Note 7)*	251,262,503	182,277,182
Financial assets at amortized cost *(Note 8)*	765,272	969,942
Bank premises, furniture, fixtures and equipment *(Note 9)*	24,399,301	24,317,233
Investment property *(Note 10)*	3,377,766	-
Right-of-use asset *(Note 11)*	2,737,204	1,688,541
Intangible assets *(Note 12)*	10,210,242	10,801,386
Other assets *(Note 13)*	21,342,389	20,539,465
TOTAL ASSETS	P 485,448,803	P 539,445,510
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit liabilities *(Note 15)*	P 236,033,135	P 289,779,331
Bills payable *(Note 16)*	100,000,000	100,000,000
Lease liabilities *(Note 11)*	3,377,879	1,879,230
Retirement benefit obligation *(Note 18)*	1,061,778	-
Deposits for stock subscription *(Note 21)*	-	74,939,894
Accrued interest and other liabilities *(Note 17)*	15,637,587	11,351,222
Total Liabilities	356,110,379	477,949,677
EQUITY		
Capital stock *(Note 21)*	100,000,000	100,000,000
Deposits for stock subscription *(Note 21)*	74,939,894	-
Deficit	(45,601,470)	(38,504,167)
Total Equity	129,338,424	61,495,833
TOTAL LIABILITIES AND EQUITY	P 485,448,803	P 539,445,510

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SIGOURNEY MENDELL S. BERNAL (Collection Section)

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Peso)

	2022	2021
INTEREST INCOME		
Loans and other receivables *(Note 7)*	P 87,902,031	P 38,843,844
Bank deposits *(Note 6)*	818,278	509,948
Financial assets at amortized cost *(Note 8)*	35,318	44,404
	88,755,627	39,398,196
INTEREST EXPENSE		
Deposit liabilities *(Note 15)*	11,266,235	6,103,936
Bills payable *(Note 16)*	3,781,431	2,383,332
Lease liabilities *(Note 11)*	161,224	243,895
	15,208,890	8,731,163
NET INTEREST INCOME	73,546,737	30,667,033
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES *(Note 14)*	9,997,709	6,530,827
NET INTEREST INCOME AFTER CREDIT AND IMPAIRMENT LOSSES	63,549,028	24,136,206
OTHER INCOME		
Services charges and fees *(Note 7)*	2,495,523	87,275
Rentals *(Note 23)*	2,586,457	2,968,432
Others *(Note 19)*	15,802,905	13,685,226
	20,884,885	16,740,933
OTHER EXPENSES		
Compensation and fringe benefits *(Note 18)*	29,054,653	27,665,827
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	12,161,347	11,357,798
Taxes and licenses *(Note 31)*	7,701,678	5,963,921
Other administrative expenses *(Note 19)*	43,947,553	28,720,046
	92,865,231	73,707,592
LOSS BEFORE TAX	(8,431,318)	(32,830,453)
TAX BENEFIT *(Note 20)*	(1,969,299)	(7,195,081)
NET LOSS	(6,462,019)	(25,635,372)
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment defined benefit plan *(Note 18)*	847,046	-
Tax effect *(Note 20)*	(211,762)	-
	635,284	-
TOTAL COMPREHENSIVE LOSS	(P 7,097,303)	(P 25,635,372)

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See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Peso)

	Capital Stock	Deposit for Stock Subscription	Deficit	Total
Balance at January 1, 2022 *(Note 21)*	P 100,000,000	P -	(P 38,504,167)	P 61,495,833
Reclassification from liability *(Note 21)*	-	74,939,894	-	74,939,894
Total comprehensive loss for the year	-	-	(7,097,303)	(7,097,303)
Balance at December 31, 2022 *(Note 21)*	P 100,000,000	P 74,939,894	(P 45,601,470)	P 129,338,424
Balance at January 1, 2021 *(Note 21)*	P 100,000,000	P -	(P 12,868,795)	P 87,131,205
Total comprehensive loss for the year	-	-	(25,635,372)	(25,635,372)
Balance at December 31, 2021 *(Note 21)*	P 100,000,000	P -	(P 38,504,167)	P 61,495,833

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Peso)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(P 8,431,318)	(P 32,830,453)
Adjustments for:		
Interest expense *(Notes 15 and 16)*	15,047,666	8,487,268
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	12,161,347	11,357,798
Provision for credit and impairment losses *(Note 14)*	9,997,709	6,530,827
Retirement expense *(Note 18)*	214,732	-
Accretion of interest on lease liabilites *(Note 11)*	161,224	243,895
Interest income *(Notes 6, 7 and 8)*	(88,755,627)	(39,398,196)
Operating loss before working capital changes	(59,604,267)	(45,608,861)
Increase in loans and other receivables	(80,819,021)	(169,006,846)
Decrease (increase) in other assets	1,548,856	(505,946)
Increase (decrease) in deposit liabilities	(53,746,196)	265,470,326
Increase in accrued interest and other liabilities	4,596,895	334,593
Cash from (used in) operations	(188,023,733)	50,683,266
Interest received on loans and other receivables	86,128,188	35,526,092
Interest paid on deposit liabilities	(10,783,242)	(4,234,549)
Cash paid for income taxes *(Note 20)*	(170,719)	(110,870)
Net Cash From (Used in) Operating Activities	(112,849,506)	81,863,939
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on bank deposits	818,902	513,124
Proceeds from financial assets at amortized cost	204,670	204,044
Interest received on financial assets at amortized cost	25,493	33,291
Acquisitions of bank premises, furniture, fixtures and equipment *(Note 9)*	(6,798,486)	(2,497,193)
Additions to intangible assets *(Note 12)*	(1,555,373)	(2,620,547)
Net Cash Used in Investing Activities	(7,304,794)	(4,367,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on lease liabilities *(Note 11)*	(161,224)	(243,895)
Interest paid on bills payable	(4,574,954)	(1,589,809)
Payments of lease liabilities *(Note 11)*	(2,607,157)	(4,340,246)
Proceeds from bills payable *(Note 16)*	-	100,000,000
Proceeds from deposits for stock subscription *(Note 21)*	-	74,939,894
Net Cash From (Used in) Financing Activities	(7,343,335)	168,765,944
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(127,497,635)	246,262,602
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash *(Note 4)*	632,013	1,187,116
Due from Bangko Sentral ng Pilipinas *(Note 5)*	5,980,649	557,771
Due from other banks *(Note 6)*	292,239,099	50,844,272
	298,851,761	52,589,159
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash *(Note 4)*	1,545,908	632,013
Due from Bangko Sentral ng Pilipinas *(Note 5)*	6,863,010	5,980,649
Due from other banks *(Note 6)*	162,945,208	292,239,099
	P 171,354,126	P 298,851,761

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Peso)

1. GENERAL INFORMATION

Corporate Information

Welcome Bank (Rural Bank), Inc. *(Formerly Smart Bank (Rural Bank), Inc.)* (the Bank) was registered with the Securities and Exchange Commission (SEC) on May 26, 1999 with Registration Number A199906565. The Bank purpose To carry on and engage in the business of extending credit to small farmers and businessmen and to deserving small and medium scale industries or enterprises; to provide financial products and services through digital platform or electronic channels, specifically providing electronic payment and financial services; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; to provide the corporation's subsidiary or affiliate with services such as sales and marketing support, customer acquisition acts, credit assessment and review, internal audit, compliance-related acts, and performing other business processes for said subsidiary or affiliate, to the extent that relevant governing laws and regulations of the Bangko Sentral allow to do and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

In 2020, the Bank transferred its head office and main office branch to Unit G02 I Square Building, 15 Meralco Ave., Barangay San Antonio, Pasig City. The Bank's previous head office and main branch located at G/F Westgate Tower, Investment Drive, Madrigal Business Park, Alabang, Muntinlupa City is now a branch.

In 2022, the Bank change it's head and main office branch to Units 1701 - 1703 The Taipan Place Building, F. Ortigas Jr. Road corner Ortigas Center, Brgy. San Antonio, Pasig City. The approval was also included in the Bank's Amendment in Articles of Incorporation and By-Laws discussed in the succeeding paragraph.

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the amendment of primary purpose of the Bank which is to carry on and engage in the business of extending credit to small farmers and businessmen and to deserving small and medium scale industries or enterprises; to provide financial products and services through digital platform or electronic channels specifically providing electronic payment and financial services; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; to provide the corporation's subsidiary or affiliate with services such as sales and marketing support, customer acquisition acts, credit assessment and review, internal audit, compliance-related acts, and performing other business processes for said subsidiary or affiliate, to the extent that relevant governing laws and regulations of the Bangko Sentral allow to do; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). The said amendment was approved by BSP on August 23, 2022 and endorsed to SEC which was approved on February 13, 2023.

Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2022 (including the comparative financial statements as at and for the year ended December 31, 2021) were authorized for issue by the Bank's Board of Directors (BOD) on March 20, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation of Financial Statements

a. *Statement of Compliance with Philippine Financial Reporting Standards*

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

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

b. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expense in a single statement of comprehensive income.

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

c. *Functional and Presentation Currency*

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

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

Adoption of New and Amended to PFRS

a. Effective in 2022 that are Relevant to the Company

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

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments - Fees in the '10 percent' Test for Derecognition of Liabilities

Discussed below are the relevant information about these pronouncements:

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

ii. PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract*. The amendments specify that the 'cost of fulfilling a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Management assessed that there is no significant impact on the Bank's financial statements since none of the existing contracts as of January 1, 2022 are identified as onerous.

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

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

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

b. *Effective in 2022 that are not Relevant to the Company*

Among the amendments to PFRS which are mandatory effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Bank's financial statements:

i. PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework* (effective from January 1, 2022)

ii. Annual Improvements to PFRS 2018-2022 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Bank:

- PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
- PFRS 16 (Amendments) : Leases - Lease Incentives
- PAS 41, *Agriculture – Taxation in Fair Value Measurements*

b. *Effective Subsequent to 2022 but not Adopted Early*

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

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

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

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

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

v. PFRS 17, Insurance Contracts (effective from January 1, 2023)

vi. PFRS 17, (Amendments), *Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information* (effective January 1, 2023)

vii. PFRS 10 (Amendments), *Consolidated Financial Statements, and PAS 28 (Amendments), Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely).

Financial Instruments

a. Financial Assets

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

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

Classification and Measurement of Financial Assets

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

i. Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met (and are not designated as FVTPL):

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

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

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

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

The Bank's financial assets measured at amortized cost comprise Cash, Due from BSP, Due from other banks, Loans and other receivables and Investment securities at amortized cost (presented as Financial asset at amortized cost) in the statements of financial position.

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from BSP and other banks.

Cash, Due from BSP and Due from other banks includes cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash refers to the total amount of cash and other cash items received after the selected clearing cut-off time until the close of the regular banking hours. Due from BSP refers to the balance of the deposit account maintained with BSP. Due from other banks refers to the balances of deposit account maintained with other banks.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. These include financial assets such as direct loans to customers and sales contract receivables. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Investments that are primarily composed of government and corporate bonds bearing fixed interest rates and defined maturity dates are also measured at amortized cost.

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

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

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

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

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

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

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

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

Any dividends earned on holding equity instruments are recognized in profit or loss when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and, the amount of the dividend can be measured reliably unless the dividends represent a recovery of a part of the cost of the investment.

As at December 31, 2022 and 2021, the Bank does not have financial assets designated at FVOCI.

iii. *Financial Assets at Fair Value Through Profit or Loss (FVTPL)*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of the business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in the profit or loss as part of Interest income in the statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Interest income in the statements of comprehensive income.

As at December 31, 2022 and 2021, the Bank does not have financial assets designated at FVTPL.

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

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

b. *Impairment of Financial Assets*

Expected Credit Loss Model

PFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss' (ECL) model. The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. It also includes observable data that comes to the attention of the Bank about certain loss events, including, among others: the significant financial difficulty of the issuer or debtor; a breach of contracts, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank determines whether there has been a significant increase in credit risk for the financial asset since initial recognition by comparing the risk of a default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The Bank promptly recognizes and maintains an adequate allowance for credit losses at all times. It adopts the principles provided under the Enhanced Standards on Credit Risk Management in implementing sound and robust credit risk measurement methodologies that adequately consider ECL. In this respect, the ECL methodology is not considered as a separate and distinct process but as an important element of the entire credit risk management process.

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

- *Probability of default* - It is an estimate of the likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* - It is an estimate of loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* - It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Bank recognizes an impairment loss based on the category of financial assets. When financial assets are carried 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 the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 loans or investments carried 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 (excluding future credit loss that has not been incurred) discounted at the financial asset's original effective interest rate. The Bank also considers impairment provisions based on the simplified approach within IFRS 9 using the expected credit losses (ECL). During this process, the probability of the non-payment of loans and receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the expected credit loss for the loans and receivables.

Credit exposures are classified into three stages using the following time horizons in measuring ECL:

Stages of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered "under performing" or not yet non-performing but with significant increase in credit risk since initial recognition or with low credit risk	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing,	Lifetime

Twelve (12)-Month ECL

The Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month ECL. The Bank exercises experienced credit judgment and considers both qualitative and quantitative information that may affect the assessment.

Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

Lifetime ECL

The Bank evaluates the change in the risk of a default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure. Although collateral will be used to measure the loss given default, this should not be primarily used in measuring the risk of default or in transferring to different stages.

The Bank measures lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

Transfer from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is a significant increase in credit risk from initial recognition. The Bank establishes well-defined criteria on what constitutes a significant increase in credit risk. The Bank considers a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower specific. The criteria on what constitutes a significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

The Bank classifies exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. The Bank also classifies to exposures to Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Bangko Sentral applies the following indicators of a significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Section 143 of the MORB;
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with a risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Transfer from Lifetime ECL to 12-month ECL

The Bank transfers the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of a probable collection prior to their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of an assessment of the borrower's financial capacity (e. g., improvement in counterparty's situation).

As a general rule, the full collection is probable when payments of interest and/or principal are received for at least six (6) months.

Multiple Exposures to Specific Counterparties

In measuring the ECL of multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

i. *Exposures to non-retail counterparties.* The Bank measures ECL to multiple exposures to a non-retail counterparty measures ECL at the counterparty level. In particular, the Bank considers all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

ii. *Exposures to a retail counterparty.* The Bank with multiple exposures to a retail counterparty at the transaction level. In particular, the Bank may classify one transaction under Stage 1 and another transaction under Stage 3. However, the Bank is not precluded from taking into account the potential of cross-default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

iii. *Exposures to counterparties belonging to a group of related entities.* The Bank with multiple exposures to counterparties that belong to the same group of related entities measures ECL at the counterparty level (per entity). The Bank likewise considers the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

General and Specific Provisions for Loan Accounts

The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Bank is not required to provide one percent (1%) General Provision on other credit exposures covered by PFRS 9 such as off-balance-sheet accounts and investments.

The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

Basic Guidelines in Setting up Allowance for Credit Losses (2021)

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

a. *Individually Assessed Credit Exposures*

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with an allowance for credit losses (ACL) based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31 - 90 days	Substandard (underperforming)	10%	2
91 - 120 days	Substandard (non-performing)	25%	3
121 - 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard (underperforming)	10%	2
91 - 180 days*	Substandard (non-performing)	10%	3
181 - 365 days	Substandard (non-performing)	25%	3
Over a year-5years	Doubtful	50%	3
Over 5 years	Loss	100%	3

**When there is the imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*

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

Loans other credit exposures that exhibit the characteristics for classified accounts described under Appendix to Section 143 shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3
Substandard – Unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

b. *Collectively Assessed Loans and other Credit Accommodations*

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 - 60 days	Substandard	25%	2 or 3
1st restructuring 61 – 90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	ACL		Stage
		Other types of collateral	Secured by real estate	
31 - 90 days*	Substandard (underperforming)	10%	10%	2
91 - 120 days*	Substandard (non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 days - 5years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

In 2022, the Bank applied the following methodologies and guideline for Risk Credit and ECL estimation:

Stages of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Other than loan receivables as Stage 2 or Stage 3	Twelve (12) months (12-month PD *LGD)
Stage 2	31 to 89 days past due	Lifetime
Stage 3	90 or more days past due or restructured loan	Lifetime

When the Bank already determined the probability of default (PD), it uses the Markov Chain Model using a transition matrix approach in computing ACL. This is based on Markov properties and lifetime PD is estimated by transition matrix multiplication. Transitions matrix which follows Markov properties are dependent only on the values of current states, and not on the previous history data up to that point *(see Note 14)*.

When the financial asset is in the losses given default (LGD) stage, the Bank applied the LDG rate of 45%, which is given by Basel II.

For forward-looking information, the Bank uses Vasicek model with GDP growth rates wherein a multi-scenario is applied including the neutral, positive, and negative.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If loans or investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is an uncollectible subject to BSP guidelines, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD, and the BSP, has been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other income in the statements of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income.

When possible, the Bank opted to restructure loans rather than to take possession of the collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and those future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment losses.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subject to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

c. *Derecognition of Financial Assets*

i. *Modification of Loans*

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

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

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on the derecognition of financial assets in profit or loss.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

ii. Derecognition of Financial Assets Other than Through Modification

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

d. Classification and Measurement of Financial Liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Financial liabilities include deposit liabilities, bills payable, lease liabilities, deposits for stock subscription and accrued interest and other liabilities (excluding tax payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest expenses in the statements of comprehensive income.

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

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of the consideration received) net of direct issue costs. Bills payable are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments; any difference between proceeds net of transaction costs and the redemption value is recognized in the statements of comprehensive income over the period of the borrowings.

Lease liabilities are fully discussed in *Leases* in the succeeding pages.

Deposits for stock subscription is defined as a subscription agreement which, among other things, states that the Bank is not contractually obliged to return the consideration received and that the Bank is obliged to deliver a fixed number of own shares of stock for a fixed amount of cash or property paid or to be paid by the contracting party.

Deposits for stock subscription is classified as part of equity for prudential reporting purposes when all of the following conditions are met:

- The deposits for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards 32: Financial Instruments: Presentation such that the deposit for future stock subscription shall not be interest-bearing nor withdrawable by the subscriber.

- The Bank's existing authorized capital stock is already fully subscribed;

- The Bank's stockholders and board of directors have approved the proposed increase in authorized capital;

- The Bank filed an application for the amendment of its Articles of Incorporation for the increase in authorized capital with the appropriate department of the SES, BSP duly supported by complete documents as listed in Circular Letter No. 2009-042 dated May 14, 2009.

  "Application for the amendment of Articles of Incorporation for the increase in authorized capital, which has been returned due to insufficiency of supporting documents, shall not qualify for recognition as an equity instrument; and the submitted the amended copy of the documents still waiting for BSP approval"

- The Bank must have obtained the approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Section 122, if applicable.

Deposits for stock subscription which does not meet the abovementioned conditions shall be classified as a liability.

Deposits for future stock subscription which meet the conditions to be recognized as equity shall form part of the Bank's qualifying capital for purposes of computing the risk-based capital adequacy ratio under Section 127.

Accrued interest and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost for maturities beyond one year, less settlement payments.

e. Derecognition of Financial Liabilities

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

f. Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest income or Interest expense, Impairment losses, Gain on disposal of financial assets, Dividend income and Recoveries from accounts written-off (presented as part of Other income) in the Statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets are measured.

g. Offsetting Financial Instruments

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

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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

Building	50 years
Building improvement	5 years
Leasehold improvement	5 years
Furniture, fixtures and equipment	3 - 5 years
Transportation equipment	3 - 5 years
Other office equipment	3 - 5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

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

Investment Property

Investment property includes real properties acquired in settlement of loans and receivables from defaulting borrowers not held for sale in the next 12 months.

These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the cost of the real properties acquired.

If the real properties acquired include depreciable real properties, the carrying amount shall be allocated to land and depreciable real properties based on their fair values.

Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful life of ten years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

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

The carrying values of the real properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts.

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

Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment are classified as investment property if pertains to real properties acquired and classified under Other assets account if pertains to other properties acquired. ROPA are recognized as follows:

(i) Upon entry of judgment in case of judicial foreclosure;
(ii) Upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and,
(iii) Upon notarization of the deed of dacion in case of dation in payment (dacion en pago)

The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'gain on asset foreclosures and dacion transactions' account in the statements of comprehensive income.

If the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

ROPA may also be classified as non-current assets held for sale when the sale is within the next twelve (12) months and is subsequently measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell.

ROPA not held for sale is accounted as subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Allowance for impairment losses is recognized for any anticipated losses based on appraisal reports, current negotiations and programs to dispose of these properties, and the provisioning requirement of the BSP. The BSP requires the Bank to set-up an allowance for impairment losses based primarily on the holding period of the assets.

Land, building and other non-financial assets not held for sale are impaired in accordance with accounting policy on *"Impairment of Non-financial Assets"*.

Intangible Assets

Intangible assets consist of software costs which are initially carried at cost. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs related to software purchased by the Bank for use in operations are amortized on a straight-line basis ranging from 5 to 10 years in 2022 and 2021. The amortization period and the amortization method for software cost are reviewed periodically to be consistent with the changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset. The amortization expense on software costs is recognized in the statement of income.

The carrying values of intangible assets with definite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets are assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. Other assets are recognized and measured at transaction costs or the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

a. Security deposits

This pertains to the deposit to the rentals incurred. This is initially recorded as an asset and measured at the amount of cash paid. Subsequently, this is carried at amortized cost.

b. Stationeries and supplies

These represent expenses not yet incurred/used but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

c. Petty cash fund

This pertains to cash on hand stated at face value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

d. Prepaid tax

Prepaid tax, which are claimed against income tax due, are carried over in the succeeding period for the same purpose.

Provisions and Contingencies

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

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

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

Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

a. *Interest Income and Expense*

Interest income and expense are recognized in the statement of comprehensive income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For other income arises in the performance of Bank's services, the Bank follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations

5. Recognizing revenue when/as a performance obligation(s) are satisfied.

The Bank determines whether a contract with a customer exists by evaluating whether the following gating criteria are present:

i. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
ii. each party's rights regarding the goods or services to be transferred or performed can be identified;

iii. the payment terms for the goods or services to be transferred or performed can be identified;
iv. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
v. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized either at a point in time or over-time, when (or as) the Bank satisfies performance obligations by transferring the promised goods or services to its customers.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

i. the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
ii. the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
iii. the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The Bank recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Bank satisfies a performance obligation before it receives the consideration, the Bank recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

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

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

a. *Service Charges and Fees*

Fees and charges arising from providing transaction services are recognized on completion of the transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the criteria. Service charges and fees related to the acquisition and origination of the loan are amortized and recognized as income using the effective interest rate method over the term of the loan.

b. *Gains from Sale or Derecognition of Non-Financial Assets*

Income from the sale of non-financial assets is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure is determined as the difference between the fair value at foreclosure and the carrying amount of the loan. Gain on foreclosure is recognized when the risks and rewards of the property have been transferred to the Bank.

c. *Other Income*

Miscellaneous income such as rental income, inspection and filing fees is generally recognized when earned.

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Bank.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in the profit or loss on an accrual basis. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Impairment of Non-financial Assets

The Bank assesses at each reporting date whether there is any indication that its non-financial assets, which include bank premises, furniture, fixtures and equipment, and right-of-use assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's or 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 groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. 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, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against income in the year in which it arises unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Leases

a. Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate', amounts expected to be payable under a residual value guarantee", and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to the initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using practical expedients. Instead of recognizing a right-of-use asset, and a lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from bank premises, furniture, fixtures and equipment and other liabilities, respectively.

b. *Bank as Lessor*

Leases that do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

The Bank provides short-term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

a. *Short-term Benefits*

Wages, salaries, and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

b. *Defined Benefit Plan*

The Bank has not yet established a formal post-employment plan. In 2022, the Bank accrues the estimated cost of post-employment benefits under a defined benefit plan required by the provisions of the Republic Act (R.A.) No. 7641, *The Retirement Pay Law.*

c. *Defined Contribution Plan*

A defined-contribution plan under which the Bank pays fixed contributions to an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

d. *Termination Benefits*

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

Income Taxes

Tax expense recognized in the profit or loss comprises the sum of deferred tax and current tax recognized in other comprehensive income or directly in equity, if any.

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

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

Related Party Transactions and Relationship

Related party transactions are a 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. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual.

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

Equity

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

Deficit represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared.

Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments, as presented below and in the succeeding page, apart from those involving estimation, which has the most significant effect on the amounts recognized in the financial statements:

a. *Application of ECL to Financial Assets at Amortized Cost*

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized costs. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

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

b. *Evaluation of Business Model Applied in Managing Financial Instruments*

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

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

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

c. *Testing the Cash Flows Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

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

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

d. *Determination of Timing of Satisfaction of Performance Obligations*

The Bank determines that its revenue from services shall be recognized over time. In making its judgment, the Bank considers the timing of receipt and consumption of benefits provided by the Bank to the borrowers or customers.

In determining the best method of measuring the progress of the Bank's rendering of services, management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as a basis in recognizing revenues. Such measurements include results of performance completed to date, the time elapsed, and appraisals of milestones reached, or activities already performed.

e. *Determination of Lease Term of Contracts with Renewal and Termination Options*

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

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

The Bank included the renewal period as part of the lease term due to the significance of these assets to its operations. Some leases have a short, non-cancellable lease period and there will be a significant negative effect on Bank's operation if a replacement is not readily available.

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

f. *Distinction between Investment Property and Owner-occupied Properties*

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

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank accounts for those portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Bank considers each property separately in making its judgment.

g. *Classification of Acquired Properties and Fair Value Determination of Investment Properties*

The Bank classifies its acquired properties as Bank premises, furniture, fixtures, and equipment if used in operations, as Other properties under Other assets if the Bank expects that the properties (including properties other than land and building) will be recovered through sale rather than use but has not qualified to be classified under PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, as Investment property if the Bank intends to hold the properties for capital appreciation or lease or as Financial Assets in accordance with PFRS 16. At initial recognition, the Bank determines the fair value of acquired properties based on fair valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

h. *Assessment of Forward-looking Information*
In assessing forward-looking information of the effect of PFRS 9 the Bank shall consider the macroeconomic factors and how are this linked to risk drivers of the exposure. The Bank may consider that it is essential in 'assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

i. *Assessment of Significant Increase in Credit Risk*

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is a significant increase in credit risk from initial recognition. The Bank establishes well-defined criteria on what constitutes a significant increase in credit risk.

The Bank considers a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower specific. The criteria on what constitutes a significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

The Bank classifies exposures to Stage 2 and 3 for its loans and receivables exposures with missed payment for more than thirty (30) days, and exposures with risk ratings downgraded by at least two (2) grades.

j. *Assessment of Contractual Terms of a Financial Asset*

The Bank determines whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In making its judgments, the Bank considers whether the cash flows before and after the changes in timing or in the amount of payments represent only payments of principal and interest on the principal amount outstanding.

Management assessed that the contractual terms of its financial assets are solely payments of principal and interest and consistent with the basic lending arrangement except for financial assets at fair value through other comprehensive income.

k. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2 and relevant disclosures are presented in Note 23.

Key Sources of Estimation Uncertainty

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

a. *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 14.

The Bank estimates the allowance for credit losses related to its financial assets based on individual and collective assessments and available facts and circumstances including, but not limited to, past events, current conditions, and forecast of future economic conditions. The Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month. In assessing whether lifetime ECL is to be used, the Bank evaluates the change in the risk of a default occurring over the expected credit life of the financial assets.

The Bank estimates the proportion of the financial assets that have experienced a significant increase in credit risk using general information and calculates expected credit losses on that basis. A number of qualitative and quantitative factors may be considered to adjust the allowance for credit losses to reflect a more considerable value.

In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third-party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under the Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 7 and 14, respectively.

b. *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

c. *Fair Value Measurement for Financial Instruments*

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

The fair values of the Bank's financial instruments are disclosed in Note 26.

d. *Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

e. *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Asset, and Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, and right-of-use asset are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives are based on the Bank's collective assessment of industry practice, internal technical evaluation, and experience with similar assets.

It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Bank's premises, furniture and fixtures would increase the recognized operating expenses and decrease assets.

The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which a Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use asset, and intangible assets are analyzed in Notes 9, 10 and 11, respectively. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

f. *Determination of Assumptions for Management's Estimation of Fair Value of Investment Property*

Investment property are measured using the cost model. The fair value disclosed in Note 10 of the financial statements was determined by the Bank using the discounted cash flows valuation technique which is mainly based on existing market conditions and actual transactions at each reporting period, such as selling price under installment sales, expected timing of sale, and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition.

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

g. *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of deferred tax assets as at those dates is disclosed in Note 20.

h. *Valuation of Post-Employment Defined Benefit Obligation*

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, and rates of compensation increase. In accordance with the PFRS, actual results that differ from the assumptions are recognized as remeasurements in other comprehensive income and therefore, generally affect the recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Retirement benefits recognized for the years ended December 31, 2022 and 2021 are disclosed in Note 18. As at December 31, 2022, the bank has a retirement benefit obligation amounting to P1,061,778 as disclosed in Note 18.

4. CASH ON HAND

Cash on hand consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, amounting to P1,545,908 and P632,013 as at December 31, 2022 and 2021, respectively.

5. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account consists of deposits maintained with BSP which amounted to P6,863,010 and P5,980,649 as at December 31, 2022 and 2021, respectively, in compliance with BSP's reserve requirements. Deposits with BSP do not earn interest. The Bank has satisfactorily complied with the reserve requirements of the BSP in both years.

Under Section 251 of the Manual of Regulation for Banks (MORB), a bank is required to maintain a reserve against deposit and deposit substitute liabilities in local currency of banks. Section 252 of the MORB further provides that the required reserves shall be kept in the form of deposits maintained by banks in the demand deposit account (DDA) with the Bangko Sentral and such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet capital requirements.

6. DUE FROM OTHER BANKS

The details of the account are as follows:

	2022	2021
Savings deposits	P 124,303,558	P 94,448,210
Demand deposits	38,641,650	129,655,640
Time deposits	-	68,135,249
	P 162,945,208	P 292,239,099

Savings and demand deposits earn interest rates based on prevailing bank rates ranging from 0.06% to 1.25% in 2022 and 2021 while time deposits earn interest rates based on prevailing bank rates ranging from 0.625% to 0.86% in 2021.

Total interest income earned amounted to P818,278 and P509,948 in 2022 and 2021, respectively, and is presented as Interest income on bank deposits in the statements of comprehensive income.

7. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2022	2021
Loans and discounts:		
Loans to individuals for consumption	P 158,998,385	P 108,716,824
Microenterprise loans	41,802,697	38,074,031
Loans to individuals for other purposes	34,962,986	28,192,342
Loan A/C principal	12,905,822	-
Loans to individuals for housing purposes	6,397,430	7,110,023
Small scale enterprise	307,411	548,421
	255,374,731	182,641,641
Unamortized discount	(457,028)	(202,119)
	254,917,703	182,439,522
Other receivables:		
Accounts receivable	8,060,561	3,338,756
Accrued interest receivable	5,222,231	3,439,187
	268,200,495	189,217,465
Allowance for impairment losses *(see Note 14)*	(16,937,992)	(6,940,283)
	P 251,262,503	P 182,277,182

The credit terms of the Bank's loans and receivables range from one up to ten years.

Annual effective interest rates of loans and discounts range from 10% to 55.20% in both years. Total interest income earned from loans and other receivables amounted to P87,902,031 and P38,843,844 in 2022 and 2021, respectively, and is presented as Interest income on loans and other receivables in the statements of comprehensive income. In 2022 and 2021, the Banks' service charges and fees on loans amounted to P2,495,523 and P87,275, respectively, and are presented under Other income in the statements of comprehensive income.

8. FINANCIAL ASSETS AT AMORTIZED COST

This account pertains to the following:

	2022	2021
Agrarian Reform 10-year Bond:		
Land Bank Bonds	P 776,302	P 990,643
Unamortized discount	(11,030)	(20,701)
	P 765,272	P 969,942

The Agrarian Reform Bond from Land Bank Bonds bears annual interest of 5.786% and with a term of 10 years that will mature ranges from 2022 to 2028. Total interest income on these investment securities amounts to P35,318 and P44,404 in 2022 and 2021, respectively, and is presented as Interest income on Financial assets at amortized cost in the statements of comprehensive income.

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

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

In the Bank's financial statements, the gross carrying amounts and accumulated depreciation at the beginning and end of 2022 and 2021 are shown below:

	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
December 31, 2022				
Cost	P 7,760,934	P 18,595,838	P 13,695,395	P 40,052,167
Accumulated depreciation	(2,908,103)	(6,016,576)	(6,728,187)	(15,652,866)
Net carrying amount	P 4,852,831	P 12,579,262	P 6,967,208	P 24,399,301
December 31, 2021				
Cost	P 7,760,934	P 12,543,884	P 14,802,161	P 35,106,979
Accumulated depreciation	(2,701,937)	(3,386,411)	(4,701,398)	(10,789,746)
Net carrying amount	P 5,058,997	P 9,157,473	P 10,100,763	P 24,317,233
January 1, 2021				
Cost	P 8,293,134	P 12,247,532	P 13,150,462	P 33,691,128
Accumulated depreciation	(3,027,970)	(862,816)	(2,699,351)	(6,590,137)
Net carrying amount	P 5,265,164	P 11,384,716	P 10,451,111	P 27,100,991

The reconciliation of the carrying amounts at the beginning and end of 2022 and 2021, of bank premises, furniture, fixtures and equipment is shown as follows:

	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2022, net of accumulated depreciation	P 5,058,997	P 9,157,473	P 10,100,763	P 24,317,233
Additions	-	6,051,954	746,532	6,798,486
Retirement of asset	-	-	(2,100,350)	(2,100,350)
Accumulated depreciation of retired asset	-	-	2,100,350	2,100,350
Depreciation charges for the year	(206,166)	(2,630,165)	(3,880,087)	6,716,418)
Balance at December 31, 2022 net of accumulated depreciation	P 4,852,831	P 12,579,262	P 6,967,208	P 24,399,301
Balance at January 1, 2021, net of accumulated depreciation	P 5,265,164	P 11,384,716	P 10,451,111	P 27,100,991
Additions	-	-	2,497,193	2,497,193
Reclassification	-	296,352	(296,352)	-
Retirement of asset	(532,200)	-	(549,142)	(1,081,342)
Accumulated depreciation of retired asset	532,200	-	549,142	1,081,342
Depreciation charges for the year	(206,167)	(2,523,595)	(2,551,189)	5,280,951)
Balance at December 31, 2021 net of accumulated depreciation	P 5,058,997	P 9,157,473	P 10,100,763	P 24,317,233

As at December 31, 2022 and 2021, the Bank has fully depreciated Bank premises, furnitures, fixtures and equipment that are still in use with an original cost amounting to P632,972 and P1,294,652, respectively.

Under BSP regulation Section 109, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Banks' net worth. In 2022, the Bank satisfactorily complied with this requirement while in 2021 the Bank has not complied with this requirement.

In 2022 and 2021, no bank premises, furniture, fixtures and equipment that are pledged as security for liabilities.

As at December 31, 2022 and 2021, management believes that there is no indication of impairment and that the carrying value of the bank premises, furniture, fixtures and equipment can be recovered through use in operations.

10. INVESTMENT PROPERTY

Investment property consists of acquired properties, mainly condominium unit, in the settlement of loans and receivables from defaulting customers. The details of this account are shown in the reconciliation below:

	2022	2021
Cost		
Balance at January 1	P -	P -
Additions	3,619,035	-
Balance at December 31	3,619,035	-
Accumulated Depreciation		
Balance at January 1	-	-
Depreciation for the year	241,269	-
Balance at December 31	241,269	-
Carrying amount as at December 31	P 3,377,766	P -

As at December 31, 2022, the fair value of the investment property is approximately P4,200,000 as assessed by the management based on the current market price per square meter.

As at December 31, 2022, no investment property pledged as security or collateral for liabilities.

11. LEASES

The Bank leases a property for its operation. The Bank leases a certain office space with a remaining term of two years and six months.

With the exception of short-term leases and leases of low-value underlying assets, the lease is reflected in the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Right-of-use Asset

The Bank's right of use asset pertains to office space rental. The carrying amount of this right-of-use asset as at December 31 and the movement during the year are shown below:

	2022	2021
Cost		
Balance at beginning of year	P 7,928,800	P 7,928,800
Additions	4,105,805	-
Balance at end of year	12,034,605	7,928,800
Accumulated amortization		
Balance at beginning of year	6,240,259	1,835,370
Amortization for the year	3,057,142	4,404,889
Balance at end of year	9,297,401	6,240,259
Carrying amount at end of year	P 2,737,204	P 1,688,541

Lease Liabilities

The lease liabilities are secured by the related underlying assets. A reconciliation of the carrying amounts of lease liabilities as at December 31 is shown below:

	2022	2021
Operating lease liabilities before discounting	P 1,879,230	P 6,219,476
Discount using incremental borrowing rate	(161,224)	(243,895)
Operating lease liabilities	1,718,006	5,975,581
Additions to (repayment of) lease liabilities for the year	1,659,873	(4,096,351)
	P 3,377,879	P 1,879,230

As at December 31, 2022 and 2021, the Bank had committed to leases that had not yet commenced. The total future cash outflows for the lease that had not yet commenced amounted to P3,610,003 and P1,948,724, respectively.

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

	Within 1 year	1 to 2 years	Total
Lease payment	P 1,446,109	P 2,163,894	P 3,610,003
Finance charges	(129,373)	(102,751)	(232,124)
Net present values	P 1,316,736	P 2,061,143	P 3,377,879

The undiscounted maturity analysis of lease liabilities as at December 31, 2021 is as follows:

	Within 1 year	1 to 2 years	Total
Lease payment	P 1,948,724	P -	P 1,948,724
Finance charges	(69,494)	-	(69,494)
Net present values	P 1,879,230	P -	P 1,879,230

Lease Payment Not Recognized as Liabilities

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

In 2022 and 2021, the expenses relating to short-term leases amounted to P10,405,944 and P9,403,530, respectively, and are presented as Rental under Other administrative expenses in the statements of comprehensive income *(see Note 19)*.

Additional Profit and Loss and Cash Outflow Information

The total cash outflow with respect to leases amounted to P2,768,381 in 2022 and P4,584,141 in 2021. Interest expense in relation to lease liabilities amounted to P161,224 and P243,895 in 2022 and 2021, respectively and is presented as Interest expense on lease liabilities in the statements of comprehensive income.

12. INTANGIBLE ASSETS

Intangible assets pertain to information technology software that consists of the loan management system, other software, and IT needs. The gross carrying amounts and accumulated amortization of this information technology software at the beginning and end of 2022 and 2021 are shown below:

	2022	2021
December 31		
Cost	**P 14,515,915**	P 12,960,542
Accumulated amortization	(**4,305,673**)	(2,159,156)
Net carrying amount	**P 10,210,242**	P 10,801,386

A reconciliation of the carrying amounts at the beginning and end of 2022 and 2021, of information technology software is shown as follows:

	2022	2021
Balance at January 1, net of accumulated amortization	P 10,801,386	P 9,852,797
Additions	1,555,373	2,620,547
Amortization charges for the year	(2,146,517)	(1,671,958)
Balance at December 31, net of accumulated amortization	P 10,210,242	P 10,801,386

As at December 31, 2022 and 2021, management believes that there is no indication of impairment and that the carrying value of the intangible asset can be recovered through use in operations.

13. OTHER ASSETS

Other assets consist of the following as at December 31:

	2022	2021
Deferred tax assets *(see Note 20)*	P 16,428,777	P 13,443,195
Security deposit	2,461,911	3,522,366
Advance rental	695,997	1,784,762
Stationery and supplies	204,302	402,896
Prepaid expenses	605,191	185,921
Prepaid tax	189,838	93,175
Petty cash fund	45,000	45,000
Others	711,373	1,062,150
	P 21,342,389	P 20,539,465

Security deposit pertains to deposits made by the Bank related to various lease agreements. This will be refunded at the end of the lease agreement after all the valid claims have been cleared.

Advance rental pertains to advance payment of rentals on various lease agreements which will be applied over the lease term.

Prepaid expenses pertain to prepaid insurances which are expected to be amortized within 12 months after the end of the financial reporting period.

Prepaid tax relates to creditable withholding tax, which is claimed against income tax due, are carried over in the succeeding period for the same purpose.

Others include construction bonds, electricity and water security deposit, refundable deposit, and installation fee.

14. ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES

The changes in the allowance for impairment and credit losses of loans and receivables follow:

	Loans Receivables	Accounts Receivables	Total
Balance at January 1, 2022	P 6,940,283	P -	P 6,940,283
Provision for the year	7,289,615	2,708,094	9,997,709
Balance at December 31, 2022	P 14,229,898	P 2,708,094	P 16,937,992
Balance at January 1, 2021	P 409,456	P -	P 409,456
Provision for the year	6,530,827	-	6,530,827
Balance at December 31, 2021	P 6,940,283	P -	P 6,940,283

Per BSP regulations, the Bank shall look beyond the past due/missed amortizations in classifying exposures and in providing an allowance for credit losses. On the other hand, the Bank with credit operations that may not economically justify the adoption of simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up an allowance for credit losses prescribed under the Appendix 15 of the MORB. The Bank uses its own methodology in computing ACL using transition matrix approach. This is based on Markov properties; lifetime PD is estimated by transition matrix multiplication. Transitions matrix which follows Markov properties are dependent only on the values of current states, and not on the previous history data up to that point.

An analysis of changes in the corresponding ECL allowances of loans as at December 31, 2022 and 2021 follows:

	2022			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021	P 1,680,738	P 529,106	P 4,730,439	P 6,940,283
Provision for credit losses	7,289,615	-	-	7,289,615
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,606,724)	1,606,724	-	-
Transfer to Stage 3	(5,025,632)	-	5,025,632	-
Amounts written-off	-	-	-	-
ECL allowance as at December 31, 2022	P 2,337,997	P 2,135,830	P 9,756,071	P 14,229,898

	2021			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021	P 335,874	P -	P 73,582	P 409,456
Provision for credit losses	6,530,827	-	-	6,530,827
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(529,106)	529,106	-	-
Transfer to Stage 3	(4,656,857)	-	4,656,857	-
Amounts written-off	-	-	-	-
ECL allowance as at December 31, 2021	P 1,680,738	P 529,106	P 4,730,439	P 6,940,283

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to take care of any losses that the Bank may incur from the non-collection or non-realization of its receivables and other risks assets.

15. DEPOSIT LIABILITIES

This account consists of the following:

	2022	2021
Demand	P 2,397,035	P 381,371
Savings	13,811,973	96,509,635
Time	219,824,127	192,888,325
	P 236,033,135	P 289,779,331

The demand and savings deposits have annual effective interest ranging from 0.5% to 2% in 2022 and 1% to 2% in 2021, while time deposits have annual interest ranging from 2.125% to 6.3% in 2022 and 2% to 5.5% in 2021. Interest expense on deposit liabilities amounted to P11,266,235 in 2022 and P6,103,936 in 2021 and is presented as Interest expense on deposit liabilities in the statements of comprehensive income.

Under Section 251 of MORB, the required reserves against deposit and deposit substitute liabilities is 2% for demand, savings, and time deposits effective reserve week July 31, 2020. Available reserves reported to the BSP as at December 31, 2022 and 2021 consist of Due from BSP amounted to P6,863,010 and P5,980,649, respectively (*see Note 5*). As at December 31, 2022 and 2021, the Bank is in compliance with the aforementioned BSP regulation.

The Bank has no deposit liabilities from DOSRI as at December 31, 2022 and 2021.

16. BILLS PAYABLE

This account consists of unsecured bills payable obtained from KEB Hana Bank amounting to P100,000,000 with an annual effective interest of 3.1839% and a term of two years. The outstanding bills payable as at December 31, 2022 and 2021 amounts to P100,000,000.

The interest on bills payable amounted to P3,781,431 in 2022 and P2,383,332 in 2021 and is presented as Interest expense on bills payable in the statements of comprehensive income.

17. ACCRUED INTEREST AND OTHER LIABILITIES

The breakdown of this account follows:

	2022	2021
Accrued other expenses	P 7,839,022	P 5,464,719
Accounts payable	3,379,563	1,597,249
Accrued interest expense	2,092,467	2,402,997
Accrued gross receipts tax payable	1,544,368	1,093,872
Withholding taxes payable	443,331	561,703
SSS, PHIC and Pag-IBIG contributions payable	317,253	198,679
Others	21,583	32,003
	P 15,637,587	P 11,351,222

Accrued other expenses include accruals for professional fees and incurred expenses. These are expected to be settled within one to three months after the end of each financial reporting period.

Accrued interest expense pertains to accrual of incurred interest on deposit liabilities and bills payable.

Accrued gross receipts tax payable pertains to the accrual of gross receipts tax payable to BIR which are remitted at an average term of 15 days after the end of the financial reporting period.

Accounts payable includes payable to a former officer of the Bank representing collections of the take-out of loans which is expected to be settled within one year.

Withholding tax, SSS, PHIC, Pag-IBIG and other payable pertains to statutory payables to BIR and other government agencies which are remitted at an average term of 15 days after the end of the financial reporting period.

18. COMPENSATION AND FRINGE BENEFITS

Expenses recognized for compensation and fringe benefits are presented below:

	2022	2021
Salaries and wages	P 18,085,348	P 19,148,119
Other benefits	9,266,496	7,277,811
Social security costs	1,362,744	1,161,897
Retirement	214,732	-
Directors' compensation	125,333	78,000
	P 29,054,653	P 27,665,827

Post-Employment Benefits

a. *Characteristics of the Defined Benefit*

As at December 31, 2022, the Bank has no formal retirement plan however accrues benefits pursuant to the provision of the Retirement Pay Law which provides a retirement benefit equal to 22.5 days for every year of credited service.

Under Republic Act (R.A.) No. 7641, The Retirement Pay Law, the Bank is legally obliged to provide a minimum retirement pay for qualified employees upon retirement.

b. *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made every other year to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary on January 21, 2023, for the period ended December 31, 2022.

The amount included in the statements of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2022	2021
Present value of defined obligation	P 1,061,778	P -
Fair value of plan asset	-	-
Retirement benefit obligation	P 1,061,778	P -

Retirement benefit obligation is presented under liability account in statements of financial position.

Movements in the present value of the retirement benefit obligation as presented in statements of financial position are as follows:

	2022	2021
Balance at January 1	P -	P -
Current service cost	214,732	-
Actuarial loss arising from changes in demographic assumptions	847,046	-
Retirement benefit obligation	P 1,061,778	P -

The components of amounts recognized in statement of comprehensive income in respect of the defined benefit obligation are as follows:

	2022	2021
Recognized in profit or loss:		
Current service cost	P 214,732	P -
Interest cost	-	-
	P 214,732	P -

Above amounts are presented as retirement benefits under compensation and fringe benefits.

	2022	2021
Recognized in other comprehensive income:		
Actuarial loss - Defined benefit obligation	P 847,046	P -
Remeasurement loss – Plan assets	-	-
Remeasurement gain – changes in the effect of the asset ceiling	-	-
	P 847,046	P -

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss.

The present values of the defined benefit obligation, the related current service cost and past service cost are measured using the projected unit credit method.

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

	2022
Discount rate	7.18%
Salary increase rate	4.00%

The discount rate used was 7.18% p.a. which is based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The average duration is estimated to be 18 years.

To approximate the zero-coupon yield for a given period to maturity, the BVAL reference rate as published by the PDS Group with the same period to maturity, was simply adopted. This approximation method is based on the principle that zero-coupon yields could be higher or lower than the coupon-paying bond yields depending on the interest rate outlook and investors' liquidity requirements as shown by a study of market transactions and thus, such rates should be close on the average. All other popular methods produce results consistently lower or higher than the coupon-paying yields given a normal yield curve.

The salary increase rate was assumed at 4% per annum taking into consideration the prevailing inflation rate and company policy. The mortality and disability rates used in the valuation were the 1994 Group Annuity Table and the 1952 Disability Table, respectively.

c. *Risk Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as interest rate risk, longevity risk, and salary risk.

i. Interest Risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation.

ii. Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

d. *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

Sensitivity Analysis

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the actuarial valuation report date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement, based on changes in the relevant assumption that were reasonably possible at the valuation date, while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the defined benefit obligation.

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31:

		Impact on defined benefit obligation	
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2022			
Discount rate	1%	(118,120)	148,592
Salary increase rate	1%	152,860	(124,470)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial position.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

19. OTHER ADMINISTRATIVE EXPENSES AND INCOME

Other Administrative Expenses

The composition of this account is shown below:

	2022	2021
Rental *(see Note 23)*	P 10,405,944	P 9,403,530
Fees and commission expense	8,215,949	3,153,510
Management and professional fees *(see Note 22)*	6,871,846	5,538,255
Information technology	5,858,871	1,629,377
Postage, telephone, cables and telegrams	3,966,160	2,876,528
Advertising	1,671,497	921,503
Power, light and water	1,357,072	1,243,120
Insurance	1,187,156	531,899
Security, clerical, messengerial and janitorial	883,324	1,065,168
Stationery and supplies	647,099	461,089
Association dues	170,928	170,928
Repairs and maintenance	167,720	127,524
Representation and entertainment	156,055	138,731
Transportation and travel	117,263	118,172
Supervision and examination fees	47,580	10,475
Fines, penalties and other charges	35,940	9,454
Litigation/Assets acquired expenses	29,959	-
Membership fees and dues	10,520	21,880
Miscellaneous	2,146,670	1,298,903
	P 43,947,553	P 28,720,046

Miscellaneous pertains to various expenses such as purchases of cleaning supplies and tokens.

Other Income

The composition of this account is shown below:

	2022	2021
Inter-affiliate outsourcing *(see Note 22)*	P 9,614,317	P 9,779,823
Service charges and fees	5,427,442	2,588,593
Miscellaneous	761,146	1,316,810
	P 15,802,905	P 13,685,226

Miscellaneous pertains to income from documentation, mortgage, and notarial fees.

20. CURRENT AND DEFERRED TAXES

The components of tax benefit as reported in the profit or loss are as follows:

	2022	2021
Reported in profit or loss		
Current tax expense:		
Final tax at 20%	P 170,719	P 110,870
Deferred income tax benefit relating to origination and reversal of temporary differences	(2,140,018)	(7,305,951)
	(P 1,969,299)	(P 7,195,081)
Reported in other comprehensive income		
Deferred tax income relating to origination and reversal of temporary differences	(P 211,762)	P -

A reconciliation of tax on pretax loss computed at the applicable statutory rates to tax benefit reported in the profit or loss is as follows:

	2022	2021
Tax on pretax loss at 25%	(P 2,319,591)	(P 8,207,614)
Adjustment for profit subjected to lower income tax rate	(42,680)	(27,718)
Tax effects of:		
Non-deductible expenses	42,680	27,718
Change in tax rate	-	986,138
Deferred tax benefit relating to origination and reversal of temporary differences	350,292	26,395
	(P 1,969,299)	(P 7,195,081)

The net deferred tax assets relate to the following as of December 31:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income	
	2022	2021	2022	2021	2022	2021
Deferred tax assets:						
Net Operating Loss Carry-Over (NOLCO)	P 10,940,844	P 11,466,432	P 525,587	(P 5,710,253)	P -	P -
Impairment losses on loans and other receivables	4,234,498	1,735,071	(2,545,752)	(1,612,234)	-	-
Minimum corporate income tax (MCIT)	327,821	196,020	-	26,395	-	-
Lease liabilities	844,470	469,807	46,327	43,785	-	-
Post-employment benefit obligation	265,445	-	(53,683)	-	(211,762)	-
Deferred tax liabilities:						
Right-of-use asset	(684,301)	(422,135)	(212,497)	(53,644)	-	-
Net Deferred Tax Assets	P 16,428,777	P 13,443,195				
Deferred Tax Expense (Income)			(P 2,140,018)	(P 7,305,951)	(P 211,762)	P -

The amount of NOLCO and its availment period are shown below:

Incurred	Amount	Applied	Expired	Unapplied	Valid Until
2021	P 26,678,464	-	P -	P 26,678,464	2026
2020	17,084,910	-	-	17,084,910	2025
2019	2,102,353	702,188	1,400,165	-	2022
	P 45,865,727	P 702,188	P 1,400,165	P 43,763,374	

On September 30, 2021, the BIR issued Revenue Regulation No. 25-2020 which prescribes the rules and regulations to implement Section 4 of Republic Act (RA) No. 11494 (Bayanihan to Recover as One Act) relative to NOLCO under Section 34 (D)(3) of the National Internal Revenue Code (NIRC) of 1997, as amended. Unless otherwise disqualified from claiming the deduction, the business or enterprise which incurred a net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The net operating loss for said taxable years may be carried over as a deduction even after the expiration of RA No. 11494 provided the same are claimed within the next five (5) consecutive taxable years immediately following the year of such loss.

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 1% gross income, as defined under the tax regulations. The said MCIT can be claimed as a tax credit in the next three years from the year it was incurred whenever the regular income tax is higher than the MCIT.

The details of MCIT are presented as follows:

Year Incurred	Amount	Applied	Unapplied	Valid Until
2022	P 633,801	P -	P 633,801	2025
2021	194,020	-	194,020	2024
	P 827,821	P -	P 827,821	

In 2022 and 2021, the Bank claims itemized deductions for income tax purposes.

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act)

On March 26, 2021, Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

a. Regular Corporate Income Tax (RCIT) rate was reduced starting July 1, 2020 from 30% to:

   - 20%, if total assets do not exceed P100 million (excluding land on which the particular business entity's office is situated), and with net taxable income not exceeding P5 million; or,
   - 25%, if the total assets and net table income discussed above are not met.

b. Reduction of minimum corporate income tax (MCIT) from 2% to 1% from July 1 to June 30, 2023.

c. The allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax, and,

d. Repeal of improperly accumulated earnings tax (IAET).

21. EQUITY

Capital Stock

Capital stock consists of:

	Shares		Amount	
	2022	2021	2022	2021
Common stock – P10 par value				
Authorized, issued and outstanding	10,000,000	10,000,000	P 100,000,000	P 100,000,000

On May 28, 2015, the Bank's Board of Directors (BOD) approved the five-year capital build-up program to infuse additional paid capital to comply with the minimum capital required by BSP. On November 25, 2015, the BSP approved the Bank's capital build-up program. In compliance with the approved program, the Bank's new stockholders infused an additional P25 million in 2020 *(see Note 25)*.

As at December 31, 2022 and 2021, the Bank has two stockholders owning 100 or more shares each of the Bank's common stock.

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the increased in capital stock from P100 million to P314 million, divided as follows:

Share Type	No. of Shares	Par Value (Php)	Total Amount (Php)
Common (Existing)	10,000,000	P 10.00	P 100,000,000
Voting Preferred A (New)	2,000,000	100.00	200,000,000
Voting Preferred B (New)	10,000,000	1.40	14,000,000
	P 22,000,000		P 314,000,000

The BOD also approved the amendment on the following features, rights and restrictions in relation to the shares in the corporation:

1. Features rights and restrictions to the shares of corporation

   a. Voting. Holders of each share shall have one (1) vote each, regardless of its classification and par value.

   b. Ownership Restriction. Voting Preferred A Shares may be owned by Philippine nationals and non-Philippine nationals. Voting Preferred B Shares shall be owned exclusively by Philippine nationals, and shall at all times, together with any Common Shares owned by Philippine nationals, comprise of a minimum of at least forty percent (40%) of the total number of voting shares of the corporation.

   c. All Preferred Shares shall be non-cumulative and perpetual.

d. Dividends and Liquidation. The distribution of dividends and liquidated value or a similar value shall be based on the par value of each share.

2. Restrictions on transfer of shares

Each shareholder may transfer its Common or Preferred shares subject to the terms below:

a. Right of First Offer and Right of First Refusal

i. If a shareholder ("Transferor") intends to sell, transfer, assign or otherwise dispose of its shares (the "Sale Shares") to a third party (the "Potential Purchaser"), it shall give written notice (the "Transfer Notice") to the other shareholders ("Transferee") of its intent to transfer its shares, specifying the offer price and all other terms of the transfer (the "Offer"). Within thirty (30) days from the date of the Transfer Notice (the "Offer Period"), the Transferee may exercise a right of first refusal to purchase the Sale Shares or to arrange for a qualified person as designee to purchase the Sale Shares.

ii. If the Transferee (or, as the case may be, its designee) accepts the Offer within the Offer Period, the Transferor shall be bound to sell the Sale Shares to the Transferee or its designee on the terms and conditions set forth in the Transfer Notice, and such sale and purchase of Sale Shares shall be completed within thirty (30) days from the date of the acceptance of the Offer.

iii. If the Transferee does not exercise the right to purchase the Sale Shares prior to the expiry of the Offer Period, or following its exercise, the Sale Shares are not sold to the Transferee pursuant to the paragraphs above, the Transferor may transfer the Sale Shares to the Potential Purchaser at a price which is not lower than the offer price and on terms no more favorable than those specified in the Transfer Notice.

b. Representation of Successor Shareholders

No sale, transfer or other disposition of shares of stock, including any assignment of pre-emptive rights shall be made unless such person has the requisite legal personality under the laws of the Philippines or the country of its organization, has the financial capability to perform its obligations, and has the power to enter into and deliver an agreement for such sale, transfer or disposition, and to perform its obligations thereunder as evidenced by a duly adopted board resolution to such effect.

c. Validity of Shares Transfer

To the fullest extent allowed under applicable law, all sales, transfers or other dispositions of the shares of stock, including any assignment of pre-emptive rights, in the corporation in violation of this Article Twelfth shall be null and void ab initio for all intents and purposes, and shall not be registered in the books of the corporation.

The said increase in the Bank's authorized capital stock was subsequently approved by the SEC on February 13, 2023 *(see Note 29)*.

Deposits for Stock Subscription (DSS)

Relative to the Bank's increased in authorized capital stock, in 2021 the Bank received deposits from stockholders for stock subscription amounting to P74,939,894. The DSS is presented under the Liabilities section in the 2021 statements of financial position pending approval by the BSP and SEC on the said increase. In 2022, the DSS is presented as part of equity.

22. RELATED PARTY TRANSACTIONS

The Bank's related parties include the directors, officers, stockholders and related interests (DOSRI).

The summary of the Bank's transactions and outstanding balances with the related parties follows:

	2022		2021		
	Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance	Terms and Condition
Stockholders					
Deposits for stock subscription	P -	P 74,939,894	P 74,939,894	P 74,939,894	
Affiliates under Common Control					
Welcome Finance, Inc.					
Management and professional fees	4,484,812	-	4,063,958	-	Payable monthly in advance within 15 days from receipt of billing
Rental income	9,614,317	-	9,779,823	-	Payable every 5th working day receipt of billing or within 20 working days from end of previous month
Management and professional fees	(4,484,812)	-	(4,063,032)	-	
	-	-	9,885,420	-	See Item b below
Key Management Compensation	8,273,568	-	11,218,919	-	

Affiliates

The following are the transactions with affiliates under common control:

a. On August 1, 2020, the Bank entered into an agreement with Welcome Finance, Inc. (WFI), a company under common control, covering an inter-affiliate reciprocal outsourcing agreement that is computed on an actual basis. In 2022 and 2021, the outsourcing of services amounted to P9,614,317 and P9,779,823, respectively, presented as part of Other income in the statements of comprehensive income *(see Note 19)*. In 2022 and 2021, the insourcing of services amounted to P4,484,812 and P4,063,032, respectively, presented as part of Management and professional fees under Other administrative expenses in the statements of comprehensive income *(see Note 19)*.

On April 28, 2021, the Bank acquired a Solution Packages with Rule base Credit & Lending Integrated Planning System (R-CIIPS), N-Builder and N-Strategy covered by Sales Agreement amounting to P1,095,526 from Welcome Finance, Inc. (WFI), a company under common control *(see Note 12)*.

On September 17, 2020, the Bank also entered into an agreement with WFI for the co-occupancy and cost-sharing agreement, purchase of assets, lease arrangements/contracts, and construction arrangement/contracts *(see Notes 9 and 11)*.

b. In 2021, the Bank has taken-out loans from WFI amounting to P9,885,420 under the same credit terms extended by the affiliated company to its borrowers. Out of this amount, the Bank has already paid P9,528,690 as at December 31, 2021. The take-out loans have terms ranging from 1 to 3 years and bear annual interest ranging from 2.7% to 5%.

Key Management Personnel Compensation

Key management includes directors and officers with the position of manager and up. The compensations of key management personnel related mainly to short-term benefits amounting to P8,273,568 in 2022 and P11,218,919 in 2021.

23. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments – Bank as Lessee

The Bank is a lessee under an operating lease agreement covering certain office spaces. The lease has a remaining term of five months with renewal options.

The total rentals from this operating lease amounted to P10,405,944 in 2022 and P9,403,530 in 2021 which is presented as Rental under Other administrative expenses in the statements of comprehensive income *(see Note 19)*.

Operating Lease Commitments – Bank as Lessor

The Bank is a lessor to its affiliates under common control under various operating lease contracts covering certain office spaces*(see Note 22)*. The lease has terms ranging from two years with renewal options. The future minimum lease collections under these operating leases as at December 31, 2022 are as follows:

	2022	2021
Within one year	P 5,339,844	P 2,270,020
After one year but not more than two years	2,270,020	-
	P 7,609,864	P 2,270,020

The total rental income from this operating lease amounted to P2,586,457 in 2022 and P2,968,432 in 2021 which is presented as Rental in the statements of comprehensive income.

Others

In the normal course of the Bank's operations, there are various commitments and contingent liabilities such as guarantees and commitments to extend credit, which may not be reflected in the accompanying financial statements. As at December 31, 2022 and 2021, there are no contingent liabilities and outstanding litigations that are not reflected in the accompanying financial statements. Management believed that losses, if any, from these claims will not have any material effect on the Bank's financial statements.

24. RISK MANAGEMENT OBJECTIVES AND POLICIES

As a financial institution, the Bank's activities expose it to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from a shortage in funding and/or lack of market for the sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, processes, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders, depositors and regulators.

The Board of Directors is mainly responsible for the overall risk management approach and the approval of risk strategies and principles of the Bank. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Bank's approach to risk issues in order to make relevant decisions.

Credit Risk

Credit risk is the risk that the counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits and investments.

The Bank manages credit risk through its credit policies, which are regularly reviewed and updated to reflect changing risk conditions. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring and collection guidelines. A codified signing authority is in place for every level of loan processing and approval. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank performs regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The Bank also subjects the loan portfolio to a regular loan portfolio quality review, credit portfolio stress testing and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations and industries. Writing-off of bad accounts are approved by the BOD and reported to the BSP in compliance with the rules and regulations for banks. The Bank's policy is to deal only with creditworthy counterparties. In addition, for a certain type of loans, collaterals or corporate and personal guarantees are required to mitigate credit risk.

Loan classification and credit risk rating are an integral part of the Bank's management of credit risk. Bank's exposures to credit risk on loans and other receivables and other details pertaining to loans and receivables as at December 31, 2022 and 2021 are disclosed in Notes 7 and 30.

The Bank's exposure to credit risk which arises from possible default of other counterparties with a maximum exposure equal to the carrying amounts of these instruments is addressed by investing its excess funds with various credit-worthy banks.

An analysis of the maximum exposure to credit risk, net of allowance for credit and impairment losses, to credit risk exposures before taking into account any collateral held or other credit enhancements for the components of the statements of financial position is shown below:

	2022	2021
Due from Bangko Sentral ng Pilipinas	P 6,863,010	P 5,980,649
Due from other banks	162,945,208	292,239,099
Loans and other receivables	251,262,503	182,277,182
Financial assets at amortized cost	765,272	969,942
	P 421,835,993	P 481,466,872

Financial instruments are recorded at fair value, the amount representing the current credit risk exposure that could arise in the future as a result of changes in values.

The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below and in the succeeding pages.

a. *Due from Bangko Sentral ng Pilipinas*

The Due from BSP account represents the aggregate balance of deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements.

b. *Due from other banks*

The Bank is able to manage the credit risk arising from Due from other banks by ensuring that banks where the financial assets are invested are of high reputation and good credit standing. Portion of due from other banks is secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under Republic Act (R.A.) No. 9576, *Amendment to Charter of Depository Insurance Corporation.*

c. *Loans and receivables*

The Bank is able to manage the credit risk arising from loans and receivables to individuals through (a) adherence to the credit policy guidelines set by the BOD wherein credit approving authority is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) an independent credit risk assessment by the Credit Approval Committee summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (c) and conducting borrower credit risk assessment performed at least annually.

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

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

In addition, the Bank has credit risk exposure on unimpaired loans and other receivables that are past due per BSP definition as at the end of the reporting period.

As at December 31, 2022 and 2021, all of the Bank's financial assets were classified as neither past due nor impaired, except for those loans and receivables which were provided with an allowance for impairment in prior years *(see Note 14)*.

d. Financial assets at amortized cost

The carrying amount of Financial assets at amortized cost is the maximum possible credit risk exposure of the Bank in relation to the said investments.

The analysis of Bank's financial assets according to industry concentration, before taking into account any collateral held or other credit enhancements, follows:

	2022		2021	
	Gross Maximum Exposure	Net Maximum Exposure	Gross Maximum Exposure	Net Maximum Exposure
According to industry:				
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	P 164,153,806	P 164,153,806	P 108,432,453	P 108,432,453
Wholesale/retail trade of motor vehicles, motorcycles, and personal and household goods	40,604,789	40,604,789	31,558,185	31,558,185
Real estate, renting and business activities	9,036,173	9,036,173	9,958,443	9,958,443
Construction	6,462,671	6,462,671	7,605,327	7,605,327
Manufacturing	3,994,703	3,994,703	2,132,733	2,132,733
Education	1,861,352	1,861,352	-	-
Transportation and storage	1,660,020	1,660,020	1,245,697	1,245,697
Human health and social work activities	812,653	812,653	1,352,625	1,352,625
Agriculture, forestry, and fishing	465,909	465,909	2,215,061	2,215,061
Accommodation, and food service activities	268,432	268,432	2,937,452	2,937,452
Information and communication	-	-	290,566	290,566
Electricity, gas, steam and air, conditioning supply	-	-	174,337	174,337
Other service activities	25,597,195	25,597,195	14,536,643	14,536,643
	254,917,703	254,917,703	182,439,522	182,439,522
Allowance for impairment	-	(14,229,898)	-	(6,940,283)
	P 254,917,703	P 240,687,805	P 182,439,522	P 175,499,239

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to development affecting a particular industry geographic location.

The Bank holds collateral against loans and receivables in the form of real estate. 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 assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is usually not held against investment securities, and no such collateral was held as of December 31, 2022 and 2021.

The estimated fair value of real estate held as collateral against loans and receivables as at December 31, 2022 and 2021 amounted to P66,028,686 and P94,686,000, respectively. The Bank is not permitted to sell or repledge the collateral held in the absence of default by the owner of the collateral.

The following tables show the credit quality of financial assets by class (gross of allowance) of the Bank:

	2022					
	Neither Past Due Nor Impaired			Past Due		
	High Grade	Standard Grade	Substandard Grade	But Not Yet Impaired	Impaired	Total
Due from BSP	P 6,863,010	P -	P -	P -	P -	P 6,863,010
Due from other banks	162,945,208	-	-	-	-	162,945,208
Loans and other receivables:						
Loans and discounts	40,675,488	179,096,908	-	20,915,409	14,229,898	254,917,703
Accounts receivable	5,352,466	-	-	-	2,708,094	8,060,560
Accrued interest receivable	5,222,231	-	-	-	-	5,222,231
Financial assets at amortized cost	765,272	-	-	-	-	765,272
	P221,823,675	P179,096,908	P -	P 20,915,409	P 16,937,992	P438,773,984

	2021					
	Neither Past Due Nor Impaired			Past Due		
	High Grade	Standard Grade	Substandard Grade	But Not Yet Impaired	Impaired	Total
Due from BSP	P 5,980,649	P -	P -	P -	P -	P 5,980,649
Due from other banks	292,239,099	-	-	-	-	292,239,099
Loans and other receivables:						
Loans and discounts	30,591,769	134,683,013	-	10,224,457	6,940,283	182,439,522
Accounts receivable	3,338,756	-	-	-	-	3,338,756
Accrued interest receivable	3,439,187	-	-	-	-	3,439,187
Financial assets at amortized cost	969,942	-	-	-	-	969,942
	P336,559,402	P134,683,013	P -	P 10,224,457	P 6,940,283	P488,407,155

The bases in grading the Bank's financial assets are as follows:

1. *High Grade or low-risk loans*

   These loans are neither past due nor impaired which are fully secured by collateral and with good collection status. These are financial assets that have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

2. *Standard Grade or medium risk loans*

   Standard grade loans are neither past due nor impaired with partially secured loan status. These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

3. *Substandard Grade*

   Substandard grade loans are those where the counterparties are, most likely, not capable of honoring their financial obligations. These loans include impaired loans which have continuous loan collection default issues or past due but not impaired loans and receivable accounts.

The succeeding tables show the aging analysis of past due but not impaired loans and receivables. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due.

	2022					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and other receivables:						
Loans and discounts	P 20,915,409	P -	P -	P -	P -	P 20,915,409

	2021					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and other receivables:						
Loans and discounts	P 10,224,457	P -	P -	P -	P -	P 10,224,457

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings, or capital arising from the Bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs or there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity.

The Bank's management is responsible for the overall management and oversight of the Bank's liquidity profile. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. A cash flow mismatch analysis is used to measure the Bank's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Bank's funding requirements are not strained.

The following table shows the maturity profile of the financial assets and liabilities, based on the Bank's management of its liquidity structure:

	2022				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Financial assets:					
Cash	P 1,545,908	P -	P -	P -	P 1,545,908
Due from BSP	6,863,010	-	-	-	6,863,010
Due from other banks	162,945,208	-	-	-	162,945,208
Loans and other receivables:					
Loans and discounts	13,102,370	6,476,397	41,179,500	194,616,464	255,374,731
Accounts receivable	8,060,561	-	-	-	8,060,561
Accrued interest receivable	86,581	148,428	1,085,708	3,901,514	5,222,231
Financial assets at amortized cost	-	62,436	116,430	586,406	765,272
	192,603,638	6,687,261	42,381,638	199,104,384	440,776,921
Financial liabilities:					
Deposit liabilities	47,281,041	14,281,279	125,145,004	49,325,811	236,033,135
Bills payable	100,000,000	-	-	-	100,000,000
Lease liabilities	-	-	1,316,736	2,061,143	3,377,879
Accrued interest and other liabilities	149,879	36,687	1,358,553	547,348	2,092,467
	147,430,920	14,317,966	127,820,293	51,934,302	341,503,481
Cumulative total gap	P 34,405,646	(P 7,630,705)	(P 85,438,655)	P 147,170,082	P 88,506,368

	2021				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Financial assets:					
Cash	P 632,013	P -	P -	P -	P 632,013
Due from BSP	5,980,649	-	-	-	5,980,649
Due from other banks	292,239,099	-	-	-	292,239,099
Loans and other receivables:					
Loans and discounts	-	143,000	7,019,688	175,478,953	182,641,641
Accounts receivable	3,338,756	-	-	-	3,338,756
Accrued interest receivable	2,670,980	71,390	696,907	-	3,439,187
Financial assets at amortized cost	-	97,911	116,430	755,601	969,942
	304,861,407	312,301	7,833,025	176,234,554	489,241,287
Financial liabilities:					
Deposit liabilities	100,805,807	27,475,905	111,071,808	50,425,811	289,779,331
Bills payable	-	-	-	100,000,000	100,000,000
Lease liabilities	-	1,127,538	751,692	-	1,879,230
Deposits for stock subscription	-	-	-	74,939,894	74,939,894
Accrued interest and other liabilities	806,526	84,535	1,256,911	255,025	2,402,997
	101,612,333	28,687,978	113,080,411	225,620,730	469,001,452
Cumulative total gap	P 203,249,074	(P 28,375,677)	(P 105,247,386)	(P 49,386,176)	P 20,239,835

The negative liquidity gap is due to the timing difference in the contractual maturities of assets and liabilities. The management measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of a cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of deposits with banks. In addition, the majority of the stockholders have committed their financial support in the event of immediate funding requirements of its operations.

A prudential Minimum Liquidity Ratio (MLR) of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. On April 7, 2020, the BSP issued Memorandum No. M-2020-020 reducing the MLR from 20% to 16% until December 31, 2020. The effectivity of the reduction of MLR was further extended until December 31, 2022 under BSP Memorandum No. M-2022-004 dated January 17, 2022. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities. The liquidity ratio of the Bank expressed in percentage is shown below:

	2022	2021
Liquid Assets		
Cash on hand	P 1,545,908	P 632,013
Due from Bangko Sentral ng Pilipinas	6,863,010	5,980,649
Due from other banks	162,945,208	292,239,099
Financial assets at amortized cost	765,272	969,942
	P 172,119,398	P 299,821,703
Qualifying Liabilities	P 339,692,762	P 395,130,431
Liquidity percentage	50.20%	75.88%

Based on the foregoing, the Bank was above the prudential MLR as at December 31, 2022 and 2021.

Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-termination, and potential cash run-offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

a. *Foreign Currency Risk*

The Bank has no exposure to foreign currency risks as most transactions are denominated in the Philippine peso, its functional currency.

b. *Interest Rate Sensitivity*

Interest rate risk arises when there is a mismatch between positions that are subject to interest rate adjustments within a specified period. The most important source of interest rate risk is the Bank's lending, funding and investments activities, where fluctuations in interest rates are reflected in interest margins and earnings. Interest rate risk also arises in trading activities, where changes in interest rates may cause fluctuations in portfolio market values.

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR).

EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from a one-year standard deviation change in interest rates, updated quarterly. EaR is calculated based on a 99.0% confidence level. It is accomplished monthly, with a quarterly stress test.

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cashflow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, financial assets at amortized cost and some floating-rate loans and payables.

The volatility in the interest rates of these financial instruments will result in an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The Due from BSP was not included in the cash flow interest rate risk sensitivity since the potential effects on net results and capital funds will be immaterial. Majority of loans and other financial assets and liabilities have fixed rates.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's net interest income:

	2022			
	Increase (Decrease) in Basic Points			
	23	68	(23)	(68)
Change on net interest income:				
Loans and receivables	P 20,217,467	P 59,773,381	(P 20,217,467)	(P 59,773,381)
Due from other banks	188,204	556,429	(188,204)	(556,429)
Financial assets at amortized cost	8,123	24,016	(8,123)	(24,016)
Deposit liabilities	(2,591,234)	(7,661,040)	2,591,234	7,661,040
Bills payable	(869,729)	(2,571,373)	869,729	2,571,373
	P 16,952,831	P 50,121,413	(P 16,952,831)	(P 50,121,413)

	2021			
	Increase (Decrease) in Basic Points			
	23	68	(23)	(68)
Change on net interest income:				
Loans and receivables	P 13,686,082	P 28,805,223	(P 13,686,082)	(P 28,805,223)
Due from other banks	93,830	277,411	(93,830)	(277,411)
Financial assets at amortized cost	8,170	24,156	(8,170)	(24,156)
Deposit liabilities	(1,403,905)	(4,150,676)	1,403,905	4,150,676
Bills payable	(548,166)	(1,620,666)	548,166	1,620,666
	P 11,836,011	P 23,335,448	(P 11,836,011)	(P 23,335,448)

One of the goals in the risk management process is the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach or EaR currently used.

c. *Price Risk*

The Bank has no exposure to market price risk since the Bank has no trading portfolio arising from holding of government and other debt securities.

Operational Risk

Operational risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, and fraud or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payment failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately. It also includes the risk of loss due to the Bank's failure to comply with the defined operational procedures, inability to address fraud committed internally or externally, inability to handle system failures, and inability to cope with the impact of external events.

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

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. The BOD has the ultimate responsibility for providing leadership in the management of operational risk in the Bank. The Bank has established measures to mitigate the effects of risks related to operations through its senior management. The Bank's Operational Risk Management tools are continually being reviewed and enhanced to proactively manage operational risks and increase the Bank's operational resilience. Operational risks arising from health, safety, and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include environmental consciousness, occupational health and safety, and community health and safety.

The Bank continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

Legal Risk

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Exposure to the legal risk of the Bank is low as there are no outstanding cases as of December 31, 2022 and 2021.

Regulatory Risks

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

Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was enacted in September 2001 and was amended by RA Nos. 9194, 10167, 10365, and 10927 in 2003, 2012, 2013 and 2017, respectively. Furthermore, terrorist financing was criminalized in RA No. 10168. Under the AMLA, as amended, in order to prevent money laundering and financing activities, the Bank is required to (1) identify its customers, (2) report covered transactions and suspicious transactions to the Anti-Money Laundering Council (AMLC) and (3) retain customer identification records and transactional documents for a specified period.

On January 27, 2011, the BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Program (MTPP) designed according to the Bank's corporate structure and risk profile. Further amendments to the regulations on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) were promulgated thru BSP Circular Nos. 950 and 1022 in March 2017 and November 2018, respectively.

The Board approved the MTPP setting forth Bank's AML/CFT policies and procedures. Under the MTPP, each business unit is required to verify the true identity of a customer based on official or other reliable identification documents or records before an account may be opened. Furthermore, the Bank is required to risk profile its customers to low, normal, or high with corresponding due diligence of reduced, average, or enhanced. Decisions to enter into a business relationship with a high-risk customer require management approval.

Under the reporting requirement, the Bank submits Covered Transaction Reports (CTRs) to the Anti-Money Laundering Council (AMLC) involving a single transaction in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank also submits Suspicious Transaction Reports (STRs) to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. As for record-keeping requirements, the Bank safe keeps, as long as the account exists, all the Know-Your-Customer (KYC) documents involving clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored. In cases involving closed accounts, the KYC documents must be kept after their closure.

On the other hand, all records of accounts with court cases must be kept until there is a final resolution.

25. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk level it recognizes at every point in time in the course of its business operations. No changes were made in the objectives, policies and processes from the previous years.

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed capital and ratio of qualifying capital to risk-weighted assets.

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

In addition, the capital adequacy ratio (CAR) of the Bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Bank for the purposes of determining the capital-to-risk assets ratio is total equity excluding:

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

Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

a. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

b. Investments in debt capital instruments of unconsolidated subsidiary banks;

c. Investments in the equity of subsidiary insurance companies and nonfinancial allied undertakings;

d. Reciprocal investments in equity of other banks/enterprises; and,

e. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the capital adequacy ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The capital-to-risk assets ratio (CAR) considers relative credit risk. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is recognized by the Bank as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

	2022	2021
Tier 1 Capital		
Common stock	P 100,000,000	P 100,000,000
Deposit for future stock subscription	74,939,894	-
Deficit	(38,504,167)	(12,868,795)
Comprehensive loss for the year	(7,097,303)	(25,635,372)
CET 1	129,338,424	61,495,833
Less deduction from Tier 1 Capital		
Deferred tax asset	16,428,777	13,443,195
	112,909,647	48,052,638
Tier 2 Capital		
General loan loss provision	2,337,996	1,680,738
Total qualifying capital	P 115,247,643	P 49,733,376
Risk-weighted assets	P 490,420,050	P 522,427,422
Capital ratios		
Total CET 1 capital expressed as percentage of total risk weighted assets	26.37%	11.77%
Total Tier 1 capital expressed as percentage of total risk weighted assets	23.02%	9.20%
Total regulatory capital expressed as percentage of total risk weighted assets	23.50%	9.52%

As at December 31, 2022, the Bank complied with the minimum capital ratios prescribed by the BSP. As at December 31, 2021, the Bank is below with the minimum CAR prescribed by the BSP.

On May 26, 2010, the BSP issued Circular No. 688 known as "revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks" and referred to by the BSP as Basel 1.5 framework which involves only a few key changes to the old risk-based capital adequacy framework under Circular No. 280 dated 29 March 2001, as amended, which will take effect on January 1, 2012.

Based on the Manual of Regulations for Banks Section 121, *Minimum Capitalization of Banks* of which a rural bank whose head office and a branch are located in the National Capital Region shall have a required minimum capital of P75 million, which must be satisfied within five years from the date of effectivity. Banks that comply with the amended capital levels must submit to the BSP a certification within 30 calendar days from the date of effectivity of this circular. Banks not meeting the minimum required capital must submit to the BSP within one year from the date of effectivity of this circular on an acceptable capital build-up program.

On November 25, 2015, the BSP approved the Bank's capital build-up program in compliance with Circular No. 854 subjects to satisfaction by 2019. In line with the Bank's capital build-up program, the Bank's new stockholders infused additional capital amounting to P25 million in 2020.

As at December 31, 2021, the Bank did not meet the minimum capital requirement by the BSP of P75,000,000. However, the Bank received deposits for stock subscription amounting to P74,939,894 and was subsequently reclassify under equity *(see Note 21)* to comply with the minimum capital as discussed in the succeeding paragraphs.

On August 24, 2022, the BSP issued Circular No. 1151 Series of 2022 *Amendments to the Minimum Capitalization of Rural Banks* increasing the minimum capital requirements for rural banks. The new minimum capitalization requirement is part of the initiatives under the Rural Bank Strengthening Program (RBSP). The RBSP was developed to enhance the operations, capacity, and competitiveness of rural banks. It is anchored on the principle that a safe and sound bank is well-capitalized. A strong capital base enables rural banks to enhance their risk management systems, upgrade resources and manage operational costs, meet prudential standards, and accelerate digital transformation.

Under Section 121 of the MORB, as amended by Circular Nos. 1121 and 1142 dated June 8, 2021 and March 29 2022, respectively, the minimum capitalization of banks shall be P50 million.

As at December 31, 2022, the Bank has satisfactorily meet the minimum capital requirement by the BSP.

Leverage Ratio and Total Exposure Measure

The Bank's leverage ratio and total exposure measure as of December 31 is presented as follows:

	2022	2021
Total capital	P 129,338,424	P 61,495,833
Total assets	P 485,448,803	P 539,445,510
Leverage ratio	26.64%	11.40%
Total exposure measure	P 485,448,803	P 539,445,510

Under BSP Circular No. 1079 Series of 2020 dated March 9, 2020, leverage ratio is computed as Total capital divided by Total Assets.

26. FAIR VALUE MEASUREMENT

Carrying Amounts and Fair Values by Category

The table below presents a comparison by category of carrying amounts and estimated fair values of the Bank's financial assets and liabilities as at December 31, 2022 and 2021.

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash	P 1,545,908	P 1,545,908	P 632,013	P 632,013
Due from BSP	6,863,010	6,863,010	5,980,649	5,980,649
Due from other banks	162,945,208	162,945,208	292,239,099	292,239,099
Loans and other receivables	268,200,495	251,262,503	189,217,465	182,277,182
Financial assets at amortized cost	765,272	765,272	969,942	969,942
	P 440,319,893	P 423,381,901	P 489,039,168	P 482,098,885
Financial Liabilities				
Deposit liabilities	P 236,033,135	P 236,033,135	P 289,779,331	P 289,779,931
Bills payable	100,000,000	100,000,000	100,000,000	100,000,000
Lease liabilities	3,377,875	3,377,875	1,879,230	1,879,230
Deposits for stock subscription	-	-	74,939,894	74,939,894
Accrued interest and other liabilities	13,332,635	13,332,635	9,496,968	9,496,968
	P 352,274,645	P 352,274,645	P 476,095,423	P 476,095,423

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

i. *Cash, Due from BSP and Due from other banks*

The carrying amounts approximate fair values given the short-term nature of the instruments.

ii. *Loans and receivables and Financial assets at amortized cost*

Loans and other receivables and financial assets at amortized cost and are carried at amortized cost less allowance for impairment loss. The estimated fair value of loans and receivables and Financial assets at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Long-term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

iii. *Deposit liabilities and Bills payable*

The estimated fair value of deposit liabilities and bills payable is estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being value, if any. The carrying amount of deposit liabilities and bills payable approximates fair value considering their short duration.

iv. *Lease liabilities*

The estimated fair values of lease liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those terms of underlying right-of-use assets being value. The carrying amount of lease liabilities approximates fair value.

v. *Deposits for stock subscription*

The carrying amount of deposits for stock subscription approximates fair value considering their duration.

vi. *Accrued interest and other liabilities*

Accrued interest and other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

Fair Value Hierarchy

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

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

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

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

When the Bank uses the valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

Cash, Due from BSP and Due from other banks is categorized as Level 1. Financial assets at amortized cost of the Bank are categorized as Level 2 in the absence of bid-offer as at reporting date and due to low volume of trading activity in the market. Loans and receivables and all financial liabilities are categorized as Level 3.

Fair Value Measurement for Non-financial Assets

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

The fair value disclosed for the Bank's investment property, which mainly consist of parcels of condominium, is based on Level 2. The Level 2 fair value of condominium was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2 *(see Note 10)*.

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities and analyzed them according to whether they are expected to be recovered or settled within one year and beyond one year from the reporting date.

As at December 31, 2022, the maturity profile of assets and liabilities follows:

	2022		
	Due Within One Year	Due Beyond One Year	Total
Assets:			
Cash	P 1,545,908	P -	P 1,545,908
Due from BSP	6,863,010	-	6,863,010
Due from other banks	162,945,208	-	162,945,208
Loans and other receivables			
Loans and discounts - gross	60,758,267	194,616,464	255,374,731
Accounts receivable	8,060,561	-	8,060,561
Accrued interest receivable	1,320,717	3,901,514	5,222,231
Financial assets at amortized cost	178,866	586,406	765,272
Bank premises, furniture, fixtures and equipment	-	24,399,301	24,399,301
Investment property	-	3,377,766	3,377,766
Right-of-use asset	-	2,737,204	2,737,204
Intangible assets	-	10,210,242	10,210,242
Deferred tax asset	-	16,428,777	16,428,777
Other assets	430,669	4,482,943	4,913,612
	P 242,103,206	P 260,740,617	P 502,843,823

	2022		
	Due Within One Year	Due Beyond One Year	Total
Liabilities:			
Deposit liabilities	P 186,707,324	P 49,325,811	P 236,033,135
Bills payable	100,000,000	-	100,000,000
Lease liabilities	1,316,736	2,061,143	3,377,879
Retirement benefit obligation	-	1,061,778	1,061,778
Accrued interest and other liabilities	15,090,239	547,348	15,637,587
	P 303,114,299	P 52,996,080	P 356,110,379

As at December 31, 2021, the maturity profile of assets and liabilities follows:

	2021		
	Due Within One Year	Due Beyond One Year	Total
Assets:			
Cash	P 632,013	P -	P 632,013
Due from BSP	5,980,649	-	5,980,649
Due from other banks	292,239,099	-	292,239,099
Loans and other receivables			
Loans and discounts - gross	7,162,688	175,478,953	182,641,641
Accounts receivable	3,338,756	-	3,338,756
Accrued interest receivable	3,439,187	-	3,439,187
Financial assets at amortized cost	214,341	755,601	969,942
Bank premises, furniture, fixtures and equipment	-	24,317,233	24,317,233
Right-of-use asset	-	1,688,541	1,688,541
Intangible assets	-	10,801,386	10,801,386
Deferred tax asset	-	13,443,195	13,443,195
Other assets	726,992	6,369,278	7,096,270
	P 313,733,725	P 232,854,187	P 546,587,912
Liabilities:			
Deposit liabilities	P 239,353,520	P 50,425,811	P 289,779,331
Bills payable	-	100,000,000	100,000,000
Lease liabilities	1,879,230	-	1,879,230
Deposits for stock subscription	-	74,939,894	74,939,894
Accrued interest and other liabilities	11,096,197	255,025	11,351,222
	P 252,328,947	P 225,620,730	P 477,949,677

28. STATEMENTS OF CASH FLOWS

a. Supplemental Information on Non-cash Investing and Financing Activities

The Bank recognized right-of-use assets amounting to P2,737,204 and P1,688,541 as at December 31, 2022 and 2021, respectively, and lease liabilities amounting to P3,377,879 and P1,879,230 as at December 31, 2022 and 2021, respectively.

b. Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of the Bank's liabilities arising from financing activity, which includes both cash and non-cash changes:

	Bills Payable (see Note 16)	Lease Liabilities (see Note 11)	Deposits for Stock Subscription (see Note 21)	Total
Balance at January 1, 2022	P 100,000,000	P 1,879,230	P 74,939,894	P 176,819,124
Cash flows from financing activities:				
Additions	-	4,105,806	-	4,105,806
Transfer from liability	-	-	(74,939,894)	(74,939,894)
Payments of lease liabilities	-	(2,607,157)	-	(2,607,157)
Interest on lease liabilities	-	(161,224)	-	(161,224)
Non-cash financing activity on interest amortization on lease liabilities	-	161,224	-	161,224
Balance at December 31, 2022	P 100,000,000	P 3,377,879	P -	P 103,377,879
Balance at January 1, 2021	P -	P 6,219,476	P -	P 6,219,476
Cash flows from financing activities:				
Additional borrowings	100,000,000	-	-	100,000,000
Proceeds from deposits	-	-	74,939,894	74,939,894
Payments of lease liabilities	-	(4,340,246)	-	(4,340,246)
Interest on lease liabilities	-	(243,895)	-	(243,895)
Non-cash financing activity on interest amortization on lease liabilities	-	243,895	-	243,895
Balance at December 31, 2021	P 100,000,000	P 1,879,230	P 74,939,894	P 176,819,124

29. EVENTS AFTER REPORTING PERIOD

On February 13, 2023, the SEC approved the following significant amendments on the Bank's Articles of Incorporation and By-Laws:

1. The Bank's primary purpose *(see Note 1)*,

2. Increase in authorized capital stock *(see Note 21)*, and,

3. Change of principal office address *(see Note 1)*.

30. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP.

This supplementary information is not a required disclosure under PFRS. In compliance with the requirements set forth by Circular No. 1074, hereunder is the supplementary information:

a. *Financial Performance Indicators*

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

	2022	2021
Return on average equity	**(7.44%)**	(34.50%)
Return on average assets	**(1.38%)**	(7.70%)
Net interest margin	**17.90%**	**11.28%**

The following formulas were used to compute the indicators:

i. Return on Average Equity (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Capital Accounts}}$

Where:

Average Total Capital Accounts = $\frac{\text{Current calendar/fiscal year-end Total Capital Accounts balance + previous calendar/fiscal year-end Total Capital Accounts balance}}{2}$

ii. Return on Average Assets (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Assets}}$

Where:

Average Total Assets = $\frac{\text{Current calendar/fiscal year-end Total Assets balance + previous calendar/fiscal year-end Total Assets balance}}{2}$

iii. Net Interest Margin (%) = $\frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$

Where:

Net Interest Income = Total Interest Income – Total Interest Expense

Average Interest Earning Assets = $\frac{\text{Current calendar/fiscal year-end Total Interest Earnings Assets balance + previous calendar/fiscal year-end Total Interest Earning Assets balance}}{2}$

b. *Capital Instruments*

As at December 31, 2022 and 2021, the Bank has only one class of capital stock, which is common shares.

The details of capital stock and CAR are presented in *Notes 21 and 25*, respectively.

c. *Significant Credit Exposures as to Industry/Economic Sector*

The classification of loans as to industry and economic activity concentration follows:

	2022		2021	
	Amount	%	Amount	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	P 164,153,806	64.39	P 108,432,453	59.43
Wholesale/retail trade of motor vehicles, motorcycles, and personal and household goods	40,604,789	15.93	31,558,185	17.30
Real estate, renting and business activities	9,036,173	3.54	9,958,443	5.46
Construction	6,462,671	2.54	7,605,327	4.17
Accommodation and food service activities	268,432	0.11	2,937,452	1.61
Agriculture, forestry, and fishing	465,909	0.18	2,215,061	1.21
Manufacturing	3,994,703	1.57	2,132,733	1.17
Human health and social work activities	812,653	0.32	1,352,625	0.74
Education	1,861,352	0.73	-	-
Transportation and storage	1,660,020	0.65	1,245,697	0.68
Information and communication	-	-	290,566	0.16
Electricity, gas, steam and air, conditioning supply	-	-	174,337	0.10
Other service activities	25,597,195	10.04	14,536,643	7.97
	P 254,917,703	100.00	P 182,439,522	100.00

The BSP considers the significant credit exposures when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. Significant credit exposures of the Bank was noted for activities of households as employers and undifferentiated goods-and-services producing activities of households for own use with 64.39% and 59.43% in 2022 and 2021, respectively.

d. *Breakdown of Total Loans as to Security and Status*

As to security, the composition of total loan portfolio (net of unamortized discount) is presented below:

	2022		2021	
	Amount	%	Amount	%
Secured:				
Real estate mortgage	P 40,270,245	16.00	P 31,857,160	17.46
Other collateral	2,663,393	1.00	-	-
	42,933,638	17.00	31,857,160	17.46
Unsecured	211,984,065	83.00	150,582,362	82.54
	P 254,917,703	100.00	P 182,439,522	100.00

As at December 31, 2022 and 2021, the fair value of the collaterals of secured loans of the Bank amounts to P46,220,080 and P62,512,000, respectively. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing and generally not updated except when a loan is individually assessed as impaired.

The breakdown of loans and discounts (net of unamortized discount) by status is presented below:

	2022	2021
Current	P 219,772,398	P 165,274,782
Past due but not yet non-performing	31,145,454	12,356,833
Past due and already non-performing	3,999,851	4,807,907
	P 254,917,703	P 182,439,522

	2022				
	Current	Past due but not yet Non-performing	Past due and already Non- performing	Items in Litigation	Total
Loans to individuals for consumption	P 143,604,109	P 20,549,696	P	P -	P 164,153,805
Microenterprise loans	36,843,036	8,337,608	3,999,851	-	49,180,495
Loans to individuals for housing purposes	4,170,613	2,258,150	-	-	6,428,763
Small scale enterprise	307,411	-	-	-	307,411
Loans to individual for other purposes	34,847,229	-	-	-	34,847,229
	P 219,772,398	P 31,145,454	P 3,999,851	P -	P 254,917,703

	2021				
	Current	Past due but not yet Non-performing	Past due and already Non- performing	Items in Litigation	Total
Loans to individuals for consumption	P 101,667,364	P 5,952,581	P 812,509	P -	P 108,432,454
Microenterprise loans	30,542,277	3,792,542	3,995,398	-	38,330,217
Loans to individuals for housing purposes	4,498,312	2,611,710	-	-	7,110,022
Small scale enterprise	548,421	-	-	-	548,421
Loans to individual for other purposes	28,018,408	-	-	-	28,018,408
	P 165,274,782	P 12,356,833	P 4,807,907	P -	P 182,439,522

An analysis of changes in the gross carrying amounts of loans as at December 31, 2022 and 2021 follows:

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at January 1, 2022	P 168,073,800	P 5,291,061	P 9,276,780	P 182,641,641
New assets originated	164,991,375	-	-	164,991,375
Assets derecognized or prepaid	(92,258,285)	-	-	(92,258,285)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(31,145,454)	31,145,454	-	-
Transfer to Stage 3	(3,999,851)	-	3,999,851	-
Amounts written-off	-	-	-	-
Gross carrying amounts as at December 31, 2022	P 205,661,585	P 36,436,515	P 13,276,631	P 255,374,731

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at January 1, 2021	P 15,806,736	P -	P 73,582	P 15,880,318
New assets originated	169,328,828	-	-	169,328,828
Assets derecognized or prepaid	(2,567,505)	-	-	(2,567,505)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(5,291,061)	5,291,061	-	-
Transfer to Stage 3	(9,203,198)	-	9,203,198	-
Amounts written-off	-	-	-	-
Gross carrying amounts as at December 31, 2021	P 168,073,800	P 5,291,061	P 9,276,780	P 182,641,641

Per BSP's Manual of Regulations for Banks (MORB), loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, the Bank may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Provided, that any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays. Provided, further, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that the Bank shall regularly review the reasonableness of its cure period policy. For microenterprise and other small loans that feature high-frequency payments, the cure period allowable by the policy shall not exceed ten (10) days.

Also, per BSP's MORB, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from the contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microenterprise and other small loans with similar credit characteristics shall be considered non-performing after the contractual due date or after it has become past due.

Restructured loans, which do not meet the requirements to be treated as performing loans, shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As of December 31, 2022 and 2021, non-performing loans of the Bank amounted to P3,999,851 and P4,807,907, respectively. The Bank does not have loans in litigation and restructured loans in both years.

e. *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availment of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until the said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion shall not exceed 5% of such net worth. Further, the total outstanding exposures shall not exceed 20% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

The Bank has no dosri loans subject to aforementioned ceilings in both years.

The following table shows information relating to DOSRI and related party loan accounts of the Bank as at December 31:

	2022	
	DOSRI Loans	Related Party Loan (inclusive of DOSRI loan)
Total DOSRI loans (FBL loans)	P -	P -
Unsecured DOSRI loans (FBL loans)	-	-
Past due DOSRI loans	-	-
Non-performing DOSRI loans	-	-
Outstanding total loan portfolio	242,011,881	242,011,881
Percent of DOSRI/Related party loans to total loan portfolio	-	-
Percent of unsecured DOSRI/Related party loans to total DOSRI/Related party loans	-	-
Percent of past due DOSRI/Related party loans to total DOSRI/Related party loans	-	-
Percent of nonperforming DOSRI/Related party loans to total DOSRI/Related party loans	-	-

	2021	
	DOSRI Loans	Related Party Loan (inclusive of DOSRI loan)
Total DOSRI loans (FBL loans)	P -	P -
Unsecured DOSRI loans (FBL loans)	-	-
Past due DOSRI loans	-	-
Non-performing DOSRI loans	-	-
Outstanding total loan portfolio	182,439,522	182,439,522
Percent of DOSRI/Related party loans to total loan portfolio	-	-
Percent of unsecured DOSRI/Related party loans to total DOSRI/Related party loans	-	-
Percent of past due DOSRI/Related party loans to total DOSRI/Related party loans	-	-
Percent of nonperforming DOSRI/Related party loans to total DOSRI/Related party loans	-	-

f. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

The Bank did not have any secured liabilities or assets pledged as security as at December 31, 2022 and 2021, except for lease liabilities amounting to P3,377,879 and P1,879,230, respectively, which are secured by the underlying Right-of-use asset with a net carrying value of P2,737,204 and P1,688,541, respectively *(see Note 11)*.

g. Commitments and Contingent Liabilities

As at December 31, 2022 and 2021, the Bank has no commitments and contingent liabilities arising from off-balance sheet items. Relevant disclosures on commitments and contingencies liabilities are fully discussed in Note 23.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in succeeding pages are the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

a. *Gross Receipts Tax*

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code and RA 9238.

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income (per RA 9337).
The Bank reported total gross receipts tax (GRT) amounting to P5,829,848 for the period January to December 2022. The GRT paid is presented as part of Taxes and licenses in the statements of comprehensive income.

b. *Documentary Stamp Taxes*

In general, the Bank's DST transactions arise from the execution of debt instruments, time deposits, and the issuance of new shares. DST pertaining to the Bank's loan releases are shouldered by its corresponding borrowers.

The Bank paid documentary stamp taxes (DST) amounting to P2,317,554 pertaining to the execution of the debt instrument.

c. *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2022 are shown below:

Compensation	P	2,240,346
Expanded		1,517,942
Final		427,035
	P	4,185,323

d. *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2022 are as follows:

Gross receipt taxes	P	5,829,848
Documentary stamp taxes		1,548,361
Municipal licenses and business permit		293,986
Real property tax		28,983
Annual registration fee		500
	P	7,701,678

e. *Value Added Tax, Excise Tax and Customs Duties and Tariff fees Paid*

The Bank is not subject to value-added tax (input and output) and excise tax due to the nature of its business. Moreover, the Bank did not pay any customs duties and tariff fees as it did not import any goods for the year ended December 31, 2022.

f. Deficiency Tax Assessments and Tax Cases

As at December 31, 2022, the Bank neither has any final deficiency tax assessment with the BIR nor tax case outstanding nor pending in courts or bodies outside the BIR during the year.