BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2023

ANNUAL REPORT ASSESSMENT CHECKLIST BANGKO MABUHAY (A RURAL BANK), INC. As of December 31, 2023				
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1. Corporate Policy

a. Bank's Vision and Mission Statements

- Corporate Mission

Consistent with the statement "the bank works as the engine of economy", Bangko Mabuhay (A Rural Bank), Inc., (the Bank) is committed to contribute to the national development through effective financial intermediation, optimization of its resources and professionalism in the banking industry.

- Corporate Vision

In attaining its financial strength, the bank envisions to be a leader in the rural banking industry. The Bank also aims to expand its products and services, being constantly guided by its corporate vision and commitment to continuous improvement and development not only of its services, as well as, of its human resources.

b. Introduction of the Bank's Brand

Bangko Mabuhay (A Rural Bank), Inc. was incorporated on January 21, 2015 through the consolidated of Rural Bank of Tanza (Cavite), Inc. (RB Tanza) and Rural Bank of Teresa (Rizal), inc. The Bangko Sentral ng Pilipinas (BSP) granted Bangko Mabuhay the authority to operate as a rural bank on March 23, 2015. The consolidated bank commenced its operation on April 1, 2015.

The consolidated bank adopted its name from RB Tanza's business name "Bangko Mabuhay". This business name was used since 1995 in order to introduce RB Tanza's products and services from a two-unit Bank in Tanza, Cavite to opening of additional three (3) branches in the Province of Cavite in the mid-90s.

The Bank's tagline "Kaagapay sa Buhay" (companion in life) is a testament of the Bank's commitment to provide its clients retail banking services, which include (1) deposit products such checking account, regular and special savings deposit, regular and long-term time deposit and ATM savings accounts; (2) retail loans such as microfinance, small and medium enterprise loans, consumption, and real estate mortgage loans; and (3) other services namely bills payment (thru Bayad Center), remittance service (via Western Union, TransFast, and BDO Remit), electronic payment and financial services (EPFS) receive funds only via InstaPay and PESONet, microinsurance, and automated teller machine (ATM) services.

The Bank's corporate color is red, symbolizing blood which sustains life. As life blood to the economy, the Bank lives up to its name "Mabuhay" (to live) in catering to the banking needs of retail customers such as the micro, small, medium enterprises, households, and other residents of the community.

c. Business model of the Bank

Bangko Mabuhay's business model consists of full branch and branchlite operation with banking services and products, as described below:

Business Model	Deposit Products	Loan Products	Other Services
Full Branch	Regular Savings ATM Savings Special Savings Demand Deposit Regular Time Deposit Long Term Non-Negotiable Time Deposit	Microfinance SME Business Loans Corporate Loan Salary Loan Housing Loan Other Consumer Loan	Bills Payment Remittance Services thru Western Union, TransFast, and BDO Remit Electronic Payment and Financial Services (EPFS) InstaPay and PESONet receive funds only Accredited SSS Paying Agent
Branchlite	Micro Deposit	Microfinance	Bills Payment Remittance Services thru: Western Union, TransFast, and BDO Remit

2. Financial Summary/ Financial Highlights

	2023	2022	Increase (Decrease)	%
Profitability				
Interest Income	₱ 133,859,541	₱ 93,252,190	₱ 40,607,351	44%
Interest Expense	5,538,639	5,840,085	(301,446)	-5%
Net Interest Income	128,320,902	87,412,105	40,908,797	47%
Non-interest income	57,254,234	44,001,107	13,253,127	30%
Operating Expenses	138,587,233	119,835,633	18,751,600	16%
Net Income after Tax	31,747,546	12,390,825	19,356,721	156%
Selected Balance Sheet Data				
Liquid Assets	1,263,061,890	1,406,335,536	(143,273,646)	-10%
Gross Loans	479,448,588	415,220,368	64,228,220	15%
Total Assets	1,957,751,912	2,019,728,489	(61,976,577)	-3%
Total Deposits	1,531,077,084	1,647,890,929	(116,813,845)	-7%
Total Stockholders' Equity	371,818,651	335,920,241	35,898,410	11%
Selected Financial Ratios				
Return on Assets	2.13%	0.62%		
Return on Equity	11.81%	3.73%		
Net Interest Margin	7.44%	5.09%		
Past Due Ratio	10.56%	13.14%		
Gross Non-Performing Loans	8.40%	9.75%		
Minimum Liquidity Ratio	97.87%	100.83%		
Capital Adequacy Ratio	25.74%	25.45%		
Branches and Manpower				
Branches	8	8		
Branchlite Units	3	3		
ATMs	5	5		
Officers	20	21		
Rank and file	153	155		
Total	173	176		
Shareholder Information				
Earnings Per Share	16.81	6.51		
Book Value per Share	196.85	177.80		
Cash Dividends Paid	-	5,005,315		

3. Financial Condition and Results of Operation

a. Review of Bank's operations and result of operations for the financial year

The year 2023 marked the Bank's 51st Anniversary (since the founding of RB Tanza in 1972) and gradual recovery from the impact of the COVID-19 pandemic. Net income from operations rose by 156% to ₱31.747 Million due mainly to increase of interest income by 44% and non-interest income by 30% which was attributed to the income from sale of acquired properties. In the wake of recovering economy, the demand for micro and small/ medium loans improved that translated into gross loans rising by 15% to ₱ 479.4 Million.

There had been a significant improvement in asset quality as past due ratio decreased to 10.56% in 2023 from 13.14% in 2022, while, gross non-performing loans (NPL) decreased to 8.40% in 2023 from 9.75% in 2022, due mainly to intensive collection effort. The Bank continued to advance asset quality by proactively engaging with borrowers significantly affected by the pandemic. As a result, NPLs remained manageable and were adequately provided for.

The Bank's deposit liabilities went down by 7% to ₱1.531 Billion due mainly to the decrease year-on-year in special deposit by 16% and in time deposit by 41%. Savings deposit comprised about 62% of total deposit liabilities.

b. Highlight of major activities during the year that impact operations

The Bank adopted different policies for emerging challenges posed by the Pandemic by strengthening its Credit Risk Management through implementation of Individual Assessment of Loans, incorporating provisions to its credit review process Environment and Social Risk Management requirements of Bangko Sentral. Personnel Management Risk was addressed through in-dept discussions with employees to commit improvements on training programs to enhance employee skills and salary and compensation adjustments to address high attrition level of officers and rank and file employees. The bank also improved its Money Laundering (ML) Terrorist Financing (TF) Proliferation Financing (PF) Prevention Program implementation of a robust compliance program via compliance testing, validation, monitoring of frontlines; together with the improvement of AML related training programs for frontliners and all stakeholders.

Income from sale of acquired properties rose by 57% or an increase of ₱12.4 Million which helped improve results of operations.

c. Major strategic initiatives of the Bank

Reduction of Past Due Loans

With the improving economic condition, the Bank prioritized reduction of past due loans thru sustained collection efforts and the granting to borrowers of relief measures such as modifying the terms and conditions of loan agreements to reflect change in the borrowers' projected cash flows and improve the probability of full collection. The said relief measures were granted under BSP Memorandum No. M-2021-056 which provided guidance on the regulatory treatment of loans with terms and conditions that have been modified for purpose of measuring expected credit losses and classifying accounts as non-performing. Such strategic initiative resulted into the reduction of past due ratio from 13.14% as of December 31, 2022 to 10.56% as of December 2023.

Incentive Scheme

In support of the launching of RISE promoting loan services to MSMEs, the Board approved a new incentive scheme for Account Managers aimed at boosting morale and ultimately performance. This resulted to the year-on-year increase in MSME loans by 10% and total loan portfolio by 15%.

Electronic Payment and Financial Services (EPFS)

Because of the new normal of physical distancing as health protocol to stop the spread of the virus, the Board and Senior Management resolved to offer electronic payment and financial services (EPFS) to enable its customers to send funds and initiate other financial transactions via electronic channels (e-channel) courtesy of InstaPay and PESONet.

Bangko Mabuhay is a member of the Philippine Payments Management, Inc. (PPMI), the payment system management body of the National Retail Payment Systems (NRPS) Framework, which enables the Bank to participate in the electronic payment system.

In order to implement EPFS in e-channel, particularly sending of funds, the Bank would outsource the mobile banking application. However, the Bank has not found yet the right outsource provider.

Financial Literacy Program

The Bank's continuously implements its financial Education Program for the year 2023 as part of its implementation of the Bank's Financial Consumer Protection Framework. The topics of the program, intended for the Bank's clients, included, among others, understanding deposit insurance, how to open a deposit account, how to change PIN, safety measures on use of ATM Card and ATM, how to compute for the interest, etc. The Financial Literacy Program of the bank provides Financial Education Programs through various communication tools such as print and digital media platforms.

Adoption of Sustainability Finance Framework

The Bank has taken steps to integrate Environmental and Social Risk (E&S) risk management policies and procedures in the Bank's credit risk and operational risk management processes in order to fully comply with BSP Circular No. 1085 and 1128, as follows:

- The Loan Policies manual was amended dated February 25, 2023 with Board Resolution (BR) No. 2023-034 to incorporate the CM No. 2022-042 Guidance on the implementation of the Environmental and Social Risk Management (ESRM) System.
- The Borrower Risk Rating (BRR) convention/training was conducted by the Credit Risk Management (CRM) Group as introduction to the new BRR Tool. The said new BRR had incorporated Environmental Risk factors which was approved by the Executive Credit Committee on March 11, 2023. The BRR tool, which was revised, finalized and disseminated, took effect on April 24, 2023.

d. Challenges, opportunities, and responses during the year

On March, 2023, the Province of Occidental Mindoro had been experiencing power interruptions thus affecting the operation of the bank's Mamburao Branch due to unpaid subsidy of OMECO to National Power Corporation. For business continuity the bank deployed additional portable electric generator to compensate the need and as an additional back-up and alternate for the existing generator set of the branch. To ensure power supply for its Mamburao Branch operations, the Bank dedicated its heavy-duty power generator and another backup generator to the said branch.

In view of the ongoing concern with the power supply over Mamburao Branch, the management plans to implement renewable energy (SOLAR) as main source of electricity for the branch for the coming years 2024-2025.

4. Risk Management Framework Adopted

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. The Risk Management program is driven by a formal approach and aligned with the organization's profile and strategic objectives, through formalizing roles within the organization, active committees, policies and procedures, reporting, communication, and technology. This program also produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities are implemented to: 1) strengthen the organization; 2) reduce the potential for unexpected losses; and 3) manage the volatility experienced by the Bank.

a. Overall risk management culture and philosophy

Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

The Bank's risk management approach reflects its values, influences the culture and guides its operations, as such, is captured in policy statements, Board and management directives, operating procedures, training programs, and is demonstrated in daily activities by management and staff. The Bank's Risk Management Framework consists of structured and consistent risk management processes that are applied across the organization under the following principles:

i. The Bank is in the business of business of taking risks and therefore, risk must be managed and controlled if it is measured consistently and accurately.

ii. The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for its safe and sound operation.

iii. The Risk Management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process.

iv. The Bank shall promote a culture of risk awareness aligned on the expectations of Bank's regulatory supervisors.

v. All bank's activities shall be in accordance with applicable legal and regulatory provisions of the Philippines as well as to the Bank's internal policies and procedures.

vi. Policies and practices that generate incentives for inappropriate actions shall be avoided. These include, but are not limited to overemphasis on short term performance results that ignore long term risks, ineffective segregation of duties that allow misuse of assets or concealment of poor results, etc.

vii. It is the Bank's firm policy that liquidity will never be compromised for profitability.

b. Risk appetite and strategy

The Bank faces a broad range of risks doing business as a financial intermediary. These risks include its day-to-day operational activities which can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high quality staff, and accountability.

In terms of operational issues, the Bank has a low appetite for risk. The Bank makes resources available to control operational risks to acceptable levels. The Bank recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation within business practices.

The Bank's Risk Appetite Statement considers the most significant risks to which the Bank is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas must be consistent with this Statement. The Risk Appetite Statement is treated as a live and evolving document where its intent is challenged and discussed on a frequent basis.

i. Strategic Risks. The Bank aspires to be among the country's top rural banks. This requires on-going development and innovation in its operations through strategic plan. The Bank has a low appetite for threats to the effective and efficient delivery of its strategic plan. It recognizes that the actual or perceived inability to deliver strategic plan could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's Board meets regularly to discuss actual performance vis-à-vis plan. A framework is in place to ensure the Bank's strategic plan is managed and reported on a consistent basis.

ii. Liquidity Risks. The Bank has a very low appetite for liquidity risks because these have significant impact on the Bank's reputation.

iii. Credit Risk. The Bank has a low appetite for credit risks. Risk tolerances for the Bank's credit activities are approved by the Board. Performance against these measures is monitored and reported to the Board and Senior Management on a monthly basis.

iv. Human Resources-related Risks. The Bank's significant human resources-related risks include the following:

- Calibre of People – The Bank relies on motivated and high-quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for losses to the value of the Bank's collective competencies, knowledge and skills is very low.

- Conduct of People – The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest. The appetite for behaviors which do not meet these standards is very low. The Bank takes very seriously any breaches of its Code of Conduct.

- Work Health & Safety (WHS) – The Bank aims to create a safe working environment for all its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviors that lead to staff being harmed while at work.

v. **Operational Risks.** The Bank's appetite for specific operational risks is detailed below. Risks are carefully analyzed in all the Bank's operational activities, including to ensure that the benefit of the risk control measures exceeds the costs of these measures.

(i) **Information Technology Information Technology (IT)** risks cover both daily operations and on-going enhancements to the Bank's IT systems. These include:

- **Processing** – Prolonged outage of the Bank's Core System: The Bank has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to inter-bank settlements, banking operations and financial markets operations. Maximum recovery times have been identified and agreed with each business area.

- **Information Security** – Cyber-attack on Bank's systems or networks: The Bank has a very low appetite for threats to Bank assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the development of robust technology solutions.

- **On-going Development** - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices.

(ii) **Fraud and Corruption**. The Bank has no appetite for any fraud or corruption perpetrated by its staff. The Bank takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set out in the Code of Conduct.

(iii) **Physical Security**. The Bank strives to provide a highly-secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measure.

(iv) **Compliance.** The Bank is committed to a high level of compliance with relevant law, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of law or regulatory requirements.

(v) **Information Management.** The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with regulatory and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management and publication. The Bank has no appetite for the deliberate misuse of its information.

vi. **Interest Rate Risk in Banking Books (IRRBB).** The Bank considers the overall impact of the bank's interest rate sensitive assets, liabilities and off-balance sheet exposures over short-, medium- and long-term time horizons on their earnings and economic value in order to manage current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book position.

The Bank captures all material sources of IRRBB and assesses the effect of interest rate changes on earnings and/or economic value. The measurement of IRRBB is based on outcomes arising from a range of interest rate shocks and stress scenarios. Towards this end, Bank measures and assesses the impact of a 100-, 200- and 300- basis point or 1%, 2%, and 3%, respectively, movement in interest rates to the Bank's net interest income on a monthly basis.

vii. Reputational Risks. – The Bank has no tolerance to risks to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, employees, market analysts, the media and other stakeholders such as regulators and other government agencies that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding.

viii. Environmental and Social Risks – The Bank has no appetite for environmental and social (E&S) risks that pose potential financial, legal and/or reputational negative effect of environmental and social issues on the Bank. As part of credit risk management, the Bank shall not finance projects with E&S issues such as environmental pollution, climate risks (both physical and transition risk), hazards to human health, safety and security, and threats to community, biodiversity and cultural heritage, among others.

c. Bank-wide risk governance structure and risk management process

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Executive/ Credit Committee and the Audit Committee, and as well as the Board of Directors, oversee risk management process.

d. Money Laundering and Terrorist Financing Prevention Program

The Money Laundering and Terrorist Financing Prevention Program (MTPP) of the Bank is designed to provide guidance for the its employees to ensure that the Bank's products, services and operations are not used for money laundering (ML) and terrorist financing (TF) purposes. The MTPP is updated to adopt new Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) rules and regulations.

The Bank is committed to develop and implement an effective money laundering and terrorist financing prevention program, take appropriate action on detected or potential suspicious activity, comply with applicable anti-money laundering laws and regulations, and promote AML awareness among its employees.

5. Corporate Governance

This section comprehensively discusses the bank's corporate governance framework and corporate culture adopted by the bank. The following minimum information should be discussed in this section:

a. Overall corporate governance structure and practices

The Board of Directors is composed of 11 directors, majority of whom, are non-executive directors. The Board of Directors is the highest authority in the matters of governance and managing the business of the Bank. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank. The Board is responsible to promote and adhere to the principles and best practices of corporate governance to foster the long-term success of the bank in fulfilling its mission and vision.

The Board is assisted in its governance function by two (2) Board-level Committees such as 1) Executive/Credit; and 2) Audit. All board committees report regularly to the BOD on their activities as follows:

- Executive/ Credit Committee

  The Executive/ Credit Committee safeguards the quality of the Bank's loan portfolio by applying prudent risk acceptance criteria considering borrower's overall risk dimension amidst prevailing industry and economic conditions. The Committee regularly meets to discuss, approve and endorse new credit applications and to be promptly apprised with developments relating to watch listed and classified loan accounts. In addition to credit risk acceptance, the Bank's Credit Committee formulates credit policies and also handles credit administrative support which includes credit investigation, insurance, securities documentation and custodianship and disposal of non-performing assets.

  This Committee also assists the Board of Directors in fulfilling its corporate governance responsibilities. It reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. The committee is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the board and its committees and executive management; and also conducts an annual self-evaluation of its performance. The Committee is also responsible for the development and oversight of the bank's risk management program.

- Audit Committee

  The Audit Committee is tasked primarily with assisting the Board in fulfilling its oversight responsibilities. The Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliance with prescribed Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements, review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

b. Selection process for the Board and Senior Management

The Board of Directors is nominated and elected by stockholders every year, each director serves a one-year term until the election of another set of directors. On the other hand, Executive Committee recommends appointment of Senior Management subject to approval of the Board. Through the Executive Committee, the Bank ensures that all directors and Senior Management are qualified based on their integrity, physical fitness, competence, education, moral standing in the community, and relevant business or banking experience, among others. The Bank does not discriminate against gender, age, and ethnic, political, religious or cultural backgrounds. There is one independent director whose role is to provide independent judgment, outside experience, and objectivity to the Board and who has not served as independent director for a maximum cumulative term of nine years from the reckoning period rule.

c. Board's Over-All Responsibility

The Board of Directors, composed of eleven (11) directors, is primarily responsible for defining the Bank's vision and mission. The Board has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It approves and oversees the implementation of strategies to achieve corporate objectives. It likewise approves and oversees the implementation of the risk governance framework, the systems of checks and balances, establishment of a sound corporate governance framework. The Board of Directors approves the selection of the Chief Executive Officer and key members of Senior Management and control functions and oversees their performance.

d. Role and Contribution of Chairman of the Board, Executive and Non-executive Directors

The Chairperson of the Board, who provides leadership in the board of directors, is responsible for:

- effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors;
- Overseeing the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensuring a sound decision making process;
- Encouraging and promoting critical discussion to ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensuring members of the board of directors receives accurate, timely, and relevant information;
- Ensuring the conduct of proper orientation for first time directors and provides training opportunities for all directors; and
- Ensuring conduct of performance evaluation of the board of directors at least once a year.

The President & General Manager is an executive director who is responsible in the general supervision, administration and management of the Bank. There are nine (9) non-executive directors who are responsible for oversight function on the business and affairs of the Bank, and one (1) of whom is an independent director.

e. Board composition

Name of Director	i. Type of directorship	ii. No. of years served as director	iii. Number shares held	iv. Percentage of ownership
1. Misael P. Santos	Chairman	6	20,755	1.10%
2. Edwin S. Fojas	Executive	36	103,414	5.48%
3. Raymundo A. Del Rosario	Non-executive	32	157,630	8.35%
4. Joselito C. Fojas	Non-executive	9	7,497	0.40%
5. Elena J. Malabanan	Non-executive	35	163,597	8.66%
6. Emmanuel P. Santos	Non-executive	10	295,552	15.65%
7. Purificacion N. Garcia	Non-executive	32	44,494	2.36%
8. Cynia J. Fojas	Non-executive	32	64,956	3.44%
9. Maria Criselda M. Fojas	Executive	9	9,535	0.50%
10. Maria Elisa P. Fojas	Non-executive	10	800	0.04%
11. Roberto U. Teo	Non-executive Independent	6	1	-

f. Board qualification

Name of Director, Nationality and Age	Relevant Qualifications/ experience
1. Misael P. Santos (Filipino, 53 years old)	Dr. Misael P. Santos was elected as member of the Board of Directors on February 18, 2017. He was appointed Chairman by the Board of Directors in 2020. His training includes corporate governance for rural bank directors, Anti-Money Laundering (AML) Regulations and Risk Management. He is a medical doctor by profession. He graduated from the De La Salle University with degrees in Bachelor of Sciencein Biology and Medicine.
2. Emmanuel P. Santos (Filipino, 62 years old)	Dr. Emmanuel P. Santos was elected as Chairman of the Board on February 10, 2018 and was succeeded by Dr. Misael P. Santos in 2020. He is a member of the Executive/ Credit Committee. His trainings include Corporate Governance, Risk Management for Rural Bank Directors, AML Regulations and risk management. Mr. Santos studied Bachelor of Science in Psychology and Medicine in University of Sto.Tomas.
3. Edwin S. Fojas (Filipino, 72 years old)	Mr. Edwin S. Fojas is the President and General Manager since 1985. Concurrently he holds the chairmanship of the Executive/ Credit Committee. A career banker for more than 30 years, Mr. Fojas started his banking career in a Commercial Bank, where he gained experience and knowledge in banking, prior to his on-boarding with this Bank. His trainings include Corporate Governance Course for rural bank directors; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS); Acquired Asset Management and Bank Security; AML Regulations and risk management. Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management.
4. Raymundo A. Del Rosario (Filipino, 75 years old)	Mr. Raymundo A. Del Rosario was elected as member of the Board of Directors since 1991. He is the incumbent Vice President and a member of the Executive/ Credit Committee.

	Mr. Del Rosario is also serving a member of the Provincial Board of the Province of Cavite, after being elected in 2020. Aside of his more than 25 years experience as director of the bank, Mr. Del Rosario had been engaged in construction, real estate, gas service station business. His trainings included Corporate Governance for rural bank directors, AML regulations and risk management. Mr. Del Rosario studied Bachelor of Science in Commerce at the Far Eastern University.
5. Joselito C. Fojas (Filipino, 72 years old)	Mr. Joselito C. Fojas was elected as member of the Board of Directors since 2013, He is the incumbent Treasurer and a member of the Executive/ Credit Committee. He is also a Director and Treasurer of Soleil Capitale Philipines, Inc., a subsidiary of Soleil Chartered Bank with head office in New York, USA and engaged in financial packaging and in the issuance of financial instruments. He is also a member of the Board of Directors of Green House Techno Development Corp., member of the Board of Trustees of the Institute of Reproductive Health, a foundation engaged primarily in the propagation of natural family planning methods, a partner of the Source Organic Market, a company engaged in marketing and distribution of organic produce, and a partner of First Option Realty, a company engaged in real estate marketing and brokering. His trainings include corporate governance for rural bank directors, AML regulations and risk management. Mr. Fojas took up Bachelor of Science in Industrial Engineering in the University of the Philippines and finished post graduate Masters in Business Management at the Asian Institute of Management.
6. Elena J. Malabanan (Filipino, 85 years old)	Dr. Elena J. Malabanan was elected as member of the Board of Directors in 1988. Dr. Malabanan has served as member of the Board of Directors for more than 30 years. She is a member of the Audit Committee. Her trainings included corporate governance for rural bank directors, best practices in crafting a customized risk management manual, AML regulations and risk management. She studied Bachelor of Science in Medicine in University of Sto. Tomas.
7. Purificacion N. Garcia (Filipino, 86 years old)	Ms. Purificacion N. Garica was elected as member of the Board of Directors since 1993. She is a member of the Audit Committee

	Her training includes corporate governance for rural bank directors, AML regulations and risk management. She graduated from National Teachers College with a degree in Bachelor of Science in Education.
8. Cynia J. Fojas (Filipino, 82 years old)	Dr. Cynia J. Fojas was elected as member of the Board of Directors in 1992.Dr. Fojas has served as member of the Board of Directors for more than 2 decades. Her trainings included corporate governance for rural bank directors, best practices in crafting a customized risk management manual, AML regulations and risk management. She studied Bachelor of Science in Medicine in University of Sto. Tomas.
9. Maria Criselda M. Fojas (Filipino, 36 years old)	Ms. Maria Criselda M. Fojas was elected as member of the Board of Directors since 2013. She was formerly a member of the Audit Committee and Corporate Governance Committee. Her trainings include corporate governance and risk management for rural bank directors, AML regulations and risk management. Ms. Fojas graduated from De La Salle University with a degree in Political Science. She also completed her Bachelor of Laws in Arellano University. She serves the Bank as Chief Legal Officer.
10. Maria Elisa P. Fojas Filipino, 61 years old)	Ms. Maria Elisa P. Fojas was elected as member of the Board of Directors in 2004. Her training includes corporate governance for rural bank directors, AML regulations and risk management. Ms. Fojas manages businesses such as construction, beach and swimming pool resorts in Cavite.
11. Roberto U. Teo (Filipino, 73 years old)	. Roberto U. Teo was appointed independent director to the Board on February 18, 2017. As independent director, he holds the chairmanship of the Audit Committee. . Teo is also a member of the Board of Directors of LBP Leasing and Finance Corporation, a fully owned subsidiary of the Land Bank of the Philippines, Chairman of the Board of Mt Apo Travel and Tours Inc. (since 2013), President and director of GT Philippines Inc. (since 2013). He was a former Director at the Tourism Infrastructure and Enterprise Zone Authority (2014-2018), and served as Assistant City Administration for Operation of Davao City. His trainings include corporate governance for rural bank directors, public corporate governance for board of directors of GOCCs, comprehensive real estate seminar and review, franchising seminar, tourism congress pre-planning workshop, executive director seminar, AML regulations and risk management.

	Mr. Teo is a graduate of the Asian Institute of Management with a Master in Business Management Degree. He completed his Bachelor of Science in Chemical Engineering at the De La Salle University.

g. List of board-level committees including membership and function

Board Level Committees	Membership	Function
Executive/ Credit Committee	Edwin S. Fojas –Chairperson Members: Raymundo A. Del Rosario Emmanuel P. Santos Joselito C. Fojas	-Meet frequently as necessary and, acting as a loan committee, shall have the power to examine and approve or disapprove loans application. -Assist the Board of Directors in fulfilling its corporate governance responsibilities. -Oversee risk management program
Audit Committee	Roberto U. Teo – Chairperson Members: Elena J. Malabanan Purificacion N. Garcia	-Oversee the financial reporting Framework -Monitor and evaluate the adequacy and effectiveness of the internal control system -Oversee the internal audit function and external audit function - Oversee implementation of corrective actions -Investigate significant issues /concerns raised

h. The Board of Directors was elected by the Stockholders in their annual meeting held on February 10, 2023. The Board met 24 times, while Audit Committee and Executive/ Credit Committee held 4 and 41 meetings, respectively, in 2023. Executive / Credit Committee meetings were conducted face-to-face, while on the other hand, meetings of the Board of Directors and Audit Committee were held via teleconferencing using Zoom application due to the prevailing health crisis brought about by the pandemic.

Hereunder is the report of Directors' attendance in board and board-level committee meetings during the calendar year 2023, including the number of board and committee meetings and percentage attended by each director.

Name of Director	Board Number of Attended and Percentage of attendance		Audit Committee Number of meetings Attended and Percentage		Executive/ Credit Committee Number of Meetings Attended and percentage	
	No.	%	No.	%	No.	%
Emmanuel P. Santos	24	100			36	94
Edwin S. Fojas	24	100			35	92
Raymundo A. Del Rosario	24	100			17	44
Joselito C. Fojas	24	100			17	44
Elena J. Malabanan	24	100	4	100		
Misael P. Santos	24	100				
Purificacion N. Garcia	24	100	4	100		
Maria Elisa P. Fojas	24	100				
Cynia J. Fojas	24	100				
Maria Criselda M. Fojas	24	100				
Roberto U. Teo	24	100	4	100		
Total of Meetings Held During the Year	24		4		38	

i. List of executive officers/senior management

Name of Officer, Nationality and Age	Position	Relevant qualifications/ experience
Edwin S. Fojas (Filipino, 72 years old)	President & General Manager	Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management. has more than 30 years of banking experience. Also, he completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.

Imelda D. Montenegro (Filipino, 60 years old)	Assistant General Manager/ Comptroller	Ms. Montenegro has a Bachelor of Science in Commerce major in Accounting at the St. Paul's College. She has more than 30 years of banking experience in accounting, lending, branch operations, and treasury. Her trainings include corporate housekeeping, best practices in credit, microfinance, market and credit risk management and treasury/comptrollership management.

j. Performance assessment program

The Assessment and Evaluation System of the Bank involves assessment of the activities or accomplishments of the Board, Committees and Individual Directors, Officers and Staff. The performance assessment program consists of the following steps:

Step 1 – Identification of Criteria and Expected Activities
Step 2 – Methodology and Assessment Approach
Step 3 – Assessment Timetable
Step 4 – Corporate Governance and Operational Improvement Program
Step 5 – Documentation
Step 6 – Directives, Desired Actions and Areas of Improvements

The Board of Directors, as a whole, in coordination with the Compliance Officer, conducts the self-assessment, assessment of committees and compliance officer; the Audit Committee assesses/evaluates the Internal Auditor; Senior Management is evaluated by the Corporate Governance Committee, while the other officers and staff are evaluated by the Assistant General Manager or by their respective supervisors. Management reports to the Board of Directors the results of the performance evaluation of officers and staff and shall provide recommendations based on the results of the rating. The recommendations maybe in the form of merit increase, promotions or both.

The Board of Directors, President and Bank Officers document all its assessment activities for future reference. This is to ensure a common understanding of the corporate governance and operational improvement program, including improvement of bank personnel. It is also to assign clear accountability for its effective implementation, both the program and the timetable for its implementation should be appropriately documented.

The Board of Directors, President and Bank Officers provide/set instructions to the ratee so as to improve the results of the assessment/ evaluation and of the Bank's operations as a whole.

Such specific actions and recommendations commensurate with the issues identified and resulting assessment on the quality of corporate governance, operational activities and personnel improvement thru training will be part of the recommendation.

k. Orientation and Education Program

The Directors and Senior Management maintain professional integrity and continuously seek to enhance their skill, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuous education or training. Directors and Senior Management attend corporate governance seminar conducted by BSP accredited training providers, prior to, or at least immediately after, assumption of office. The Compliance Officer conducts an in-house training of the Directors and Senior Management in the matter of risk management, updates on Anti-Money Laundering regulations and other relevant laws, rules and regulations.

As part of the continuing education, the Directors attended webinars on (1) Anti-Money Laundering (AML) Regulations dated September 19, 2023 via online training provided by AMLC.

The Bank's Human Resources Department (HRD) has implemented an annual program continuing education for rank and file, supervisors and middle management, and senior management with a combination of in-house and external training based on the training needs and results of performance evaluation.

l. Retirement and Succession Policy

The normal retirement date of Senior Management is upon his/her attainment of age sixty (60). However, the Board may approve extension of tenure of the President/ General Manager to remain active after his/her normal retirement date but not beyond 80 years old. On the other hand, the Bank does not impose mandatory retirement age for the Directors. Independent directors may only serve as such for a maximum cumulative term of nine (9) years, after which, the independent director shall be perpetually barred from serving as independent director in the Bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

Succession Policy provides Bank's succession plan to identify and develop internal personnel with the potential to fill key or critical organization positions. The Bank's Succession Plan involves planning for smooth continuation and to manage gaps that will arise when individuals in key positions leave or are promoted thru the individual development plan.

m. Rremuneration and Incentive Policy

The Bank provides rewarding careers by maintaining competitive compensation and benefits program for employees. The remuneration policy of the Bank applies to all employees including its senior officers. The relative value of each job and corresponding pay levels are determined by a competency-based job evaluation system. The Human Resources Department regularly reviews compensation policies and recommends changes through the Corporate Governance Committee for endorsement to the Board of Directors for approval.

On top of the salaries, the Bank's employees, including its senior management, also receive other compensation and benefits such as:

- Profit-sharing as provided by the Bank's By-laws
- Performance-based incentives/merit bonus
- 13th month pay
- Overtime pay
- Leaves (Vacation, sick ,maternity, paternity, solo parent, and special leave for women)
- Medical benefits (hospitalization and out-patient benefits for employees)
- Financial assistance loans for officers and employees
- Rice subsidy
- Retirement benefits based on tenure and salary

i. Remuneration Policy and Structure for Executive and Non-Executive Directors

Executive and non-executive directors receive a per diem allowance for actual attendance at meetings. The said directors also participate in the profit sharing as provided in the Bank's By-laws.

ii. Remuneration Policy for Senior Management

The Board of Directors determines and approves the salaries of the Senior Management, specifically, the President/General Manager and the Assistant General Manager. The said senior officers are the top two highest paid personnel of the Bank.

n. Policies and procedures on related party transactions

i. Overarching policies and procedures for managing related party transactions

The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, it is the Policy of the Bank that related party transactions (RPT) are done on an arm's length basis. Towards this end, the Bank exercises appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Board manages conflicts of interest or potential conflicts of interest and is responsible in:

- Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTS are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.

- Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTS, the Committee takes into account, among others, the following:

  - The related party's relationship to the Bank and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to the Bank of the proposed RPT;
  - The availability of other sources of comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

ii. Material RPTs

All RPTs that are considered material are subject to the approval by the Board of Directors. The Bank's internal policy on RPT:

- Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.

- Directs Management to report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- Ensures that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit process.
- Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

o. Self-Assessment Function

i. Internal Audit and Compliance Functions

The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Bank's records, physical properties, and personnel pertinent to carrying out any engagement. It also has the authority to directly access and to communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities**.** The internal audit activity also has free and unrestricted access to the Board.

The compliance function remains sufficiently independent of the operations that it conducts compliance testing and evaluation to enable him/her to perform his/her duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The compliance function has no operational responsibilities. The compliance function reports directly to the Board of Directors on a monthly basis.

The Compliance Officer reports on a regular basis to senior management on compliance matters. The report refers to the compliance risk assessment that has taken place during the reporting period, including any changes in the compliance risk profile based on relevant measurements such as performance indicators, summary of any identified breaches and/or deficiencies and the corrective measures recommended to address them, and report on corrective measures already taken.

ii. Review of Effectiveness and Adequacy of the Internal Control System

The Audit Committee provides assistance to the Board of Directors in reviewing the assurance reports of the Internal Audit Department covering the results of assessment on the adequacy and effectiveness of internal controls, risk management and governance processes, and in overseeing the financial management processes, the systems of internal accounting and financial controls, the performance and independence of the external and internal auditor, and annual independent audit of the Bank's financial statements.

Internal control and risk management are further strengthened with the Board of Directors' approval of the Audit Committee recommendations arising from periodic review of Internal Audit, management reports and consultation with the Bank's frontline and support units.

p. Dividend policy

Prior to the declaration of dividends, the Board of Directors ensures compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The Board of Directors has the power to declare and approve cash dividend, while the stockholders have the right to approve stock dividends. The net amount available for dividends is the amount of unrestricted or free retained earnings and undivided profits reported in the statement of financial position as of the calendar year-end immediately preceding the date of divided declaration. For the year 2023, there is no declaration of cash dividend.

q. Corporate Social Responsibility

Every graduation month for elementary and high school levels in the Municipality of Tanza, Cavite, the Bank awards the highest honor graduates of elementary and high schools, public or private, with medal, token cash in form of savings deposit account and testimonial luncheon as part of the Bank's corporate social responsibility with aim in inspiring young achievers of the community.

However, in the wake health crisis, the Board decided to temporarily defer awarding of medals, token cash, and holding of testimonial ceremony since year 2021 until the pandemic is over wherein mass gathering for commencement rites would be allowed by the government authorities.

r. Consumer Protection Practices

i. Role and Responsibility of the Board and Senior Management

The Board of Directors of the Bank is ultimately responsible for ensuring that consumer protection practices are embedded in the Bank's business operations. The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs.

The Board is primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as the mechanism to ensure compliance with said policies. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter shall be responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

ii. Consumer Protection Risk Management System of the Bank

As part of the Bank's consumer protection risk management system, the bank has put in place appropriate management controls and take reasonable steps to ensure that in handling complaints/requests, it identifies and remedies any recurring or systemic problems, and identifies weaknesses in the Bank's internal control procedures or process by:

- Analyzing complaints/requests data;
- Analyzing causes of complaints/requests;
- Considering whether such identified weaknesses may also affect other processes or products, including those not directly complained of/requested; and
- Correcting, whether reasonable to do so, such causes taking into consideration the concomitant costs and other resources.

iii. Consumer Assistance Management System

In order that financial consumers are provided with accessible, affordable, independent, fair, accountable, timely and efficient means for resolving complaints with their financial transactions. The Bank has established the Consumer Assistance Management System (CAMS) for complaint handling and redress. CAMS shall provide guidelines on receiving, recording, evaluating, resolving, monitoring, reporting and giving feedback to consumers.

The Consumer Assistance Group is responsible in handling consumer concerns. The said Group is composed of the Consumer Assistance Group Head, who is concurrently the Assistant General Manager; Consumer Help In-charge in the person of Department Heads and Branch Managers; and, the front-liner who is designated as Consumer Help Officer.

The Assistant General Manager heads the Consumer Assistance Group. Each Manager/Supervisor is in-charge of the Department's/Branch's/MBO's designated consumer help officer who handles consumer concerns. There are alternates for the in-charge and help officer of each team to ensure presence of consumer help officer during banking hours. Group Head is be responsible for the i) overseeing and evaluating the effectiveness of CAMS; and ii) reporting to the Board and Senior Management.

The Consumer Help In-Charge is responsible for handling complaint/request which is escalated by the Consumer Help Officer. On a daily basis, this officer shall review the register of consumer concern and reports the same to the Group Head. The complex complaint/request may further be escalated by the In-charge to the Group Head or Senior Management for proper disposition.

The Consumer Help Officer is a front-liner who: i) receives and acknowledges consumer concerns; ii) records concerns in a Register/database; iii) makes an initial review and investigation of concerns; iv) handles simple complaint/request or escalates complex complaint/request to the Consumer help-in-charge; and reports to the Unit Consumer Help In-Charge.

6. Corporate Information

a. Organizational structure

Name of Officer	Position
1. Edwin S. Fojas	President & General Manager
2. Imelda D. Montenegro	Assistant General Manager/ Comptroller
3. Ma. Criselda M. Fojas	Chief Legal Officer
4. Elijah S. Maranan	Acting Compliance Officer
5. Richelle M. Villar	Cashier
6. Marites T. Luis	Accounting Manager
7. Marites L. Monzon	Loan Documentation & Administrative Manager
8. Jasmin A. Riemedio	Credit Risk Manager
9. Joel Trapago	Collection Manager
10. Jonathan I. Montesines	Information and Communication Technology Manager
11. Marilyn P. Alcasid	Loan Marketing and Microfinance Manager
12. Eileen P. Dones	Internal Audit Manager
13. John Kayvin D. Pareja	Customer Service Manager
14. John Patrick L. Castillo	Branch Manager – Molino
15. Ruel B. Andaya	Branch Manager – Indang
16. Myra P. Arcena	Branch Manager - Naic
17. John Philip J. Cezar	Branch Manager - Mamburao
18. Pia Regina B. Piguing	Branch Manager – Teresa
19. Jane Lindle T. Talavera	Branch Manager – Tanay
20. James A. Molod	Branch Manager – Mendez
21.Rodel H. Rogador	Branch Manager – Alfonso

b. List of major stockholders (with 2% and up of stockholdings) of the bank, including nationality, percentage of stockholdings and voting status

Name of Stockholder	Nationality	Percentage of Ownership	Voting Status
1. Emmanuel P. Santos	Filipino	15.65%	Voting
2. Elena J. Malabanan	Filipino	8.66%	Voting
3. Raymundo A. Del Rosario	Filipino	8.35%	Voting
4. Heirs of Lily C. Fojas	Filipino	8.30%	Voting

5. Edwin S. Fojas	Filipino	5.48%	Voting
6. Myrna S. Fojas	Filipino	4.98%	Voting
7. Macario S. Fojas	Filipino	4.93%	Voting
8. Heirs of Jovencio S. Fojas, Jr.	Filipino	4.69%	Voting
9. Leticia P. Santos	Filipino	4.25%	Voting
10. Cynia J. Fojas	Filipino	3.44%	Voting
11. Purificacion N. Garcia	Filipino	2.36%	Voting

c. List and description of products and services offered

The Bank's products and services are as follows:

Product/Services	Description
Deposit	Regular savings, ATM savings, special savings, checking account, regular time deposit, long term non-negotiable time deposit
Loans	SME, microfinance, salary/consumption, housing, corporate loan, agricultural loan
Remittance	Western Union,TransFast, BDO Remit
Bills Payment	Utility bills, etc. (Bayad Center)
Others	SSS paying (pension) agent Microinsurance Electronic Payment and Financial Services (EPFS): • InstaPay – Receiving of Funds only • PESONet – Receiving of Funds only

d. Bank website and social media accounts

- Website: www.bangkomabuhay.com.ph.
- Facebook account: Bangko Mabuhay – A Rural Bank, Inc.
- Instagram account: bangkomabuhayofficial

e. List of banking units as of December 31, 2023:

Bank Office	Location	Contact Numbers
1. Head Office	Bangko Mabuhay Building, A. Soriano Highway, Bgy. Daang Amaya III, Tanza, Cavite	(046) 489-2001 to 04
2. Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite	(046) 872-2356; (046) 460-4748; (046) 230-2232;
3. Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite	(046) 430-9435; (046) 423-3595; (046) 230-2197
4. Naic Branch	Bangko Mabuhay Building, P. Poblete St., Bgy. Gombalza, Naic, Cavite	(046) 412-0598; (046) 412-0529; (046) 230-1322;
5. Mamburao Branch	San Jose St., Bgy. 7, Mamburao, Occidental Mindoro	(043)458-1274
6. Teresa Branch	No. 48 Corazon C. Aquino Avenue (formerly Pres. M.L. Quezon St.), Poblacion, Teresa, Rizal	(02) 8552-7837; (02) 7004-5440;
7. Tanay Branch	Near Tanay Public Market, SitioPasipit, Bgy. Plaza Aldea, Tanay, Rizal	(02)-8635-7458 (02)-7213-3464
8. Mendez Branch	1325 J.P.Rizal St. Brgy. Poblacion 4 Mendez Cavite 4121	(046) 413-0164; (046) 230-1417;
9. Alfonso Branch	Bgy. Luksuhin Ibaba, Alfonso, Cavite	(046) 404-5775; (046) 230-2124;
10.Dasmariñas Branchlite	Gov. Camerino Avenue corner San Juan St., Poblacion, Dasmariñas City, Cavite	(046)-850-2075
11. Manggahan Branchlite	No. 36 Grepps Building, CM Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite	(046) 430-6265; (046) 238-3347;
12. Silang Branchlite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite	(046)-409-3385

7. Information on sustainability finance as required under Section 153 of the Manual of Regulations for Banks (MORB).

a. Overview of Environmental and Social (E&S) risk management system

The Bank is cognizant that climate change and other environmental and social risks could pose financial concerns considering their significant and protracted implications on the Bank's operations and financial interest. Therefore, the Board and Senior Management are committed to embed sustainability principles in the Bank's governance framework, risk management system, business strategy and operations.

Toward this end, the Bank shall promote a culture that fosters environmentally and socially responsible business decisions and build its team's internal capacity and awareness of climate risks on how to assess and manage the same, integrate this process into existing risk management system. Managing climate-related physical risks contributes to the reduction of credit risk on the Bank's loan portfolio.

b. Breakdown of E&S Risk Exposures of the Bank per Sector

The Bank caters to agricultural sector, housing sector and the micro, small and medium enterprises (MSMEs). These sectors are exposed or vulnerable to physical risks or E&S risk. Hereunder is the breakdown of E&S risk exposures of the Bank per sector:

Loans Subject to E&S Risk Exposure as of December 31, 2023

Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	34,621,846	398,325	9,119,138	44,139,309
Microfinance	18,604,831	-	7,686,416	26,291,247
SME Loans				
a. Small enterprise	120,252,805	6,001,305	12,697,677	138,951,787
b. Medium enterprise	156,685,722	-	-	156,685,722
Loans for housing purpose	58,490,665	3,466,464	3,035,650	64,992,779
Total	₱ 388,655,869	₱ 9,866,094	₱ 32,752,251	₱ 431,274,214
% to Total Loan Portfolio	81%	2%	7%	90%

Loans Subject to E&S Risk Exposure as of December 31, 2022

Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	8,644,474	-	2,620,036	11,264,510
Microfinance	23,219,809	-	9,252,936	32,472,745
SME Loans				
a. Small enterprise	79,820,212	8,481,254	46,465,777	134,767,243
b. Medium enterprise	31,005,446	7,535,074	35,288,041	73,828,561
Loans for housing purpose	54,440,140	4,099,419	2,577,788	61,117,347
Total	₱ 197,130,081	₱ 20,115,747	₱ 96,417,948	₱ 313,663,776
% to Total Loan Portfolio	47%	5%	23%	76%

c. Information on Existing and Emerging E&S risks and their impact on the Bank

The Bank's operates in the Region 4-A, in Provinces of Cavite and Rizal; and in Region 4-B, in the Province of Occidental Mindoro. The Bank recognizes that the existing and emerging E&S risks and its potential impact on the Bank of climate change should be taken into consideration in its strategic plan. These impacts include major changes in rainfall patterns and distributions, threats to the natural ecosystems, declining rice yields, increasing intense droughts, rising sea level, and water scarcity, among others.

Understanding and deepening the knowledge level on physical risks and transition risks brought about by the E&S risks will enable the Bank to finance agricultural, housing and MSME sectors in a sustainable manner. Physical risks refer to the potential loss or damage to tangible assets arising from climate change and/or other weather-related condition, while transition risks pertain to potential economic adjustment cost resulting from policy, legal, technology, market change to meet climate change mitigation and adaption requirements.

d. Initiatives to Promote Adherence to Internationally-recognized Sustainability Standards and Practices

The Board and Senior Management strive to promote adherence to internationally-recognized sustainability standards and practices by:

- Enhancing the understanding and technical skills of Bank personnel on sustainability finance through capacity building;
- Monitoring the Bank's progress in attaining sustainability objectives and reporting thereof to the Board of Directors; and
- Ensuring operation and personnel performance are consistent with the objectives.

A.M.YU & ASSOCIATES, CPAS

Independent Auditors' Report

The Board of Directors and Shareholders
Bangko Mabuhay (A Rural Bank), Inc.
Bangko Mabuhay Building, A. Soriano Highway
Brgy. Daang Amaya III, Tanza, Cavite

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Bangko Mabuhay (A Rural Bank), Inc.** (the Bank), which comprise the statement of financial position as at December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Other Matter

The 2022 financial statements of **Bangko Mabuhay (A Rural Bank), Inc.** were audited by another auditor whose report dated April 15, 2023 expressed an unmodified opinion on those financial statements. We were not engaged to audit, review or apply any procedures to the 2022 financial statements of the Bank and accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements taken as a whole.

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Firm Regulatory Registration & Accreditations:
PRC-BOA Reg. No. 4589, valid until Nov. 18, 2025
SEC Accred. No. 4589-SEC, Group A, valid for five (5) years covering the audits of 2020 to 2024 financial statements of SEC Covered Institutions
IC Accred. No. 4589-IC, Group B, valid for five (5) years covering the audits of 2020 to 2024 financial statements of IC Covered Institutions
BSP Accred. No. 4589-BSP, Group C, valid for five (5) years covering the audits of 2020 to 2024 financial statements of BSP Covered Institutions
BIR Accred. No. 07-000157-002-2024, valid until Jan. 29, 2027

Emphasis of Matter – Application of Financial Reporting Reliefs Issued by BSP

We draw attention to Note 1.2 in the financial statements, which indicates that the Bank's financial statements have been prepared in accordance with the PFRSs, as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

A.M.YU
ASSOCIATES.CPAS

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

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

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 35, and Revenue Regulations No. 15-2010 and Revenue Regulations No. 34-2020 in Note 36 to the financial statements are presented for purposes of filing with the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue, respectively, and are not required parts of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A.M. YU & ASSOCIATES

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PTR No. 5669767, issued January 17, 2024, Quezon City

April 13, 2024
Quezon City

BANGKO MABUHAY (A RURAL BANK), INC.

Statements of Financial Position

		As at December 31,			
	Note/s		2023		2022
ASSETS					
Cash & other cash items	7	₱	20,470,032	₱	22,922,329
Due from Bangko Sentral ng Pilipinas (BSP)	8		22,361,022		42,350,245
Due from other banks	9		482,828,275		558,805,986
Investment securities at amortized cost	10		740,520,243		782,256,976
Loans & receivables – net	11		484,242,987		398,918,292
Bank premises, furniture, fixtures and equipment – net	12		48,012,073		45,282,791
Investment properties – net	14		108,789,867		121,070,851
Deferred tax assets – net	26		9,999,617		13,498,124
Other assets – net	15		40,527,796		34,622,895
TOTAL ASSETS		₱	1,957,751,912	₱	2,019,728,489
LIABILITIES & EQUITY					
Liabilities:					
Deposit liabilities	17	₱	1,531,077,084	₱	1,647,890,929
Bills payable	18		30,000,000		10,000,000
Current tax payable	26		1,693,498		–
Other liabilities	19		23,162,679		25,917,319
Total liabilities		₱	1,585,933,261	₱	1,683,808,248
Equity:					
Share capital	20	₱	188,879,800	₱	188,879,800
Share premium			26,811,831		26,811,831
Surplus free			153,671,181		121,923,635
Re-measurement gains (losses) on defined benefit plan			2,455,839		(1,695,025)
Total equity		₱	371,818,651	₱	335,920,241
TOTAL LIABILITIES & EQUITY		₱	1,957,751,912	₱	2,019,728,489

See accompanying notes to the financial statements.

BANGKO MABUHAY (A RURAL BANK), INC.

Statements of Comprehensive Income

		For the years ended December 31,			
	Note/s		2023		2022
Interest income	21	₱	133,859,541	₱	93,252,190
Interest expense	22	₱	(5,538,639)	₱	(5,840,085)
Net interest income		₱	128,320,902	₱	87,412,105
Other operating income	23		57,254,234		44,001,107
Other operating expenses	24		(138,587,233)		(119,835,633)
Profit before tax (tax benefit)		₱	46,987,903	₱	11,577,579
Income tax expense (benefit)	26		(15,240,357)		813,246
Profit for the year		₱	31,747,546	₱	12,390,825
Other comprehensive income:					
Not to be reclassified to profit or loss in subsequent periods:					
Re-measurement gain on retirement obligation, net of tax			4,150,864		–
Other comprehensive income for the year			4,150,864		–
Total comprehensive income for the year		₱	35,898,410	₱	12,390,825
Basic earnings per share	27	₱	16.81	₱	6.56

See accompanying notes to the financial statements.

BANGKO MABUHAY (A RURAL BANK), INC.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

		Share Capital		Share Premium		Surplus Free		Re-measurement gains (losses) on defined benefit plan		Total Equity
Note/s		20								
Balances at January 1, 2023	₱	188,879,800	₱	26,811,831	₱	121,923,635	₱	(1,695,025)	₱	335,920,241
Total comprehensive income for the year		–		–		31,747,546		4,150,864		35,898,410
Balances at December 31, 2023	₱	188,879,800	₱	26,811,831	₱	153,671,181	₱	2,455,839	₱	371,818,651
Balances at January 1, 2022	₱	188,879,800	₱	26,811,831	₱	114,538,127	₱	(1,695,025)	₱	328,534,733
Total comprehensive income for the year		–		–		12,390,825		–		12,390,825
Dividends declared		–		–		(5,005,317)		–		(5,005,317)
Balances at December 31, 2022	₱	188,879,800	₱	26,811,831	₱	121,923,635	₱	(1,695,025)	₱	335,920,241

See accompanying notes to the financial statements.

BANGKO MABUHAY (A RURAL BANK), INC.

Statements of Cash Flows

	Note/s		For the years ended December 31, 2023		2022
Cash flows from operating activities:					
Profit for the year before tax (tax benefit)		₱	46,987,903	₱	11,577,579
Adjustments for:					
Interest income	21		(133,859,541)		(93,252,190)
Interest received			133,859,541		91,890,013
Interest expense	22		5,538,639		5,840,085
Interest paid			(5,411,401)		(6,024,818)
Retirement benefits expense			1,900,134		
Contributions to plan assets			(5,134,305)		
Income from sale of assets	12, 14, 23		(34,568,646)		(21,929,542)
Depreciation and amortization	12, 14, 15, 24		13,781,251		13,696,590
Operating profit before working capital adjustments		₱	23,093,575	₱	1,797,717
Working capital adjustments:					
Decrease (Increase) in:					
Loans & receivables			(85,324,695)		(70,457,097)
Other assets			5,614,816		(6,467,375)
Increase (Decrease) in:					
Deposit liabilities			(116,813,845)		49,347,376
Other liabilities			1,246,209		6,554,142
Net cash used in operations		₱	(172,183,940)	₱	(19,225,237)
Income tax paid			(17,923,084)		–
Net cash used in operating activities		₱	(190,107,024)	₱	(19,225,237)
Cash flows from investing activities:					
Proceeds from sale of investment properties	14, 23	₱	45,229,819	₱	26,521,379
Proceeds from sale of bank premises, furniture, fixtures and equipment	12, 23		1,375,463		–
Placements in investment securities	10		(549,000,000)		–
Proceeds from maturity, redemption, or sale of investment securities	10		590,736,733		49,584,105
Acquisition of investment properties	14		(3,072,407)		–
Acquisition of bank premises, furniture, fixtures and equipment	12		(11,891,021)		(7,517,971)
Acquisition of computer software	15		(827,866)		(535,584)
Net cash provided by investing activities		₱	72,550,721	₱	68,051,929

(Forward)

BANGKO MABUHAY (A RURAL BANK), INC.

Statements of Cash Flows (continued)

	Note/s		For the years ended December 31, 2023		2022
Cash flows from financing activities:					
Proceeds from bills payable	33	₱	30,000,000	₱	–
Repayment of bills payable	33		(10,000,000)		(10,000,000)
Payments of lease liabilities	33		(862,928)		(804,027)
Dividends paid	33		–		(5,005,317)
Net cash provided by (used in) financing activities		₱	19,137,072	₱	(15,809,344)
Net increase (decrease) in cash and cash equivalents		₱	(98,419,231)	₱	33,017,348
Cash and cash equivalents at beginning of year					
Cash & other cash items	7	₱	22,922,329	₱	30,360,521
Due from Bangko Sentral ng Pilipinas	8	₱	42,350,245	₱	37,336,809
Due from other banks	9	₱	558,805,986	₱	523,363,882
			624,078,560		591,061,212
Cash and cash equivalents at end of year					
Cash & other cash items	7	₱	20,470,032	₱	22,922,329
Due from Bangko Sentral ng Pilipinas	8	₱	22,361,022	₱	42,350,245
Due from other banks	9	₱	482,828,275	₱	558,805,986
			525,659,329		624,078,560

See accompanying notes to the financial statements.

Notes to the Financial Statements
As at and for the years ended December 31, 2023 and 2022

1. Reporting Entity

1.1 Formation and Operations

Bangko Mabuhay (A Rural Bank), Inc. (the Bank or BMRBI), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) per SEC Registration No. CS201500594 on January 21, 2015, through the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. The consolidation was approved by the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Commission (PDIC) under the Strengthening Program for Rural Banks (SPRB) pursuant to Republic Act (RA) No. 7353, *The Rural Banks Act of 1992*, and Monetary Board Resolution No. 1541 dated September 19, 2013. On March 23, 2015, the BSP granted the Bank its Certificate of Authority to engage in business of rural banking which commenced operations on April 1, 2015.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of Republic Act (R.A.) No. 8791, the *General Banking Law of 2000*, R.A. No. 7353, the *Rural Banks Act of* 1992, and other related banking laws.

As at December 31, 2023, the Bank has 8 branches and 3 branch-lite units operating in the Provinces of Cavite, Rizal and Occidental Mindoro. Branch-lite units are annexed to the head office or certain branches which only perform limited banking activities such as microfinance, micro-deposit, bills payment, and remittance services.

The Bank's registered office address, which also serves as its principal place of business, is located at A. Soriano Highway, Brgy. Daang Amaya III, Tanza, Cavite.

1.2 Impact of COVID-19 Pandemic

The Coronavirus Disease of 2019 (COVID-19), which was declared a pandemic by the World Health Organization in early 2020, adversely affected the world. In a move to contain the COVID-19 outbreak, the Philippine government-initiated directives to impose stringent social distancing measures and guidelines under different levels of community quarantine depending on the assessment of the situation in numerous parts of the country.

In response to the unprecedented impact of the COVID-19 pandemic, the Bank continued to open its doors to serve the public while looking after the health, safety and well-being of the workers including service personnel and customers. Measures undertaken by the Bank to mitigate the operation risk of COVID-19 include enforcing mandatory health and safety protocols (social distancing, masking, frequent sanitation and disinfection on bank premises, antigen testing for personnel), and team rotation work schedules, among others.

The Bank granted to its customers the mandatory reliefs provided by the government through the *Bayanihan to Heal as One Act (Bayanihan I)* and *Bayanihan to Recover as One Act (Bayanihan II)*. In addition, the Bank voluntarily granted relief measures to borrowers such as modifying terms and conditions of loan agreements to improve the probability of full collection.

In view of the heightened credit risk, the Bank responded by issuing several credit bulletins on the changes in credit granting and lending policies. This includes, among others, the implementation of guidelines to comply with the provisions of Bayanihan I and the tightening of credit approval.

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Requirements for new loans and credit facilities both to new and existing clients. In addition, there were also guidelines on post-enhanced community quarantine collection, policies for managing loans affected by the COVID-19 crisis, and procedures for availing of regulatory relief measure stated in BSP memoranda Nos. M-2020-008 (Regulatory Relief for BSFIs Affected by the Corona Virus Disease 2021) and M-2020-032 (Amendments to M-2020-008).

In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels, and as a result, the Bank saw more normalized operations.

On July 22, 2023, the government lifted the State of Public Health Emergency throughout the Philippines relating to COVID-19.

1.3 Approval on the Release of the Financial Statements

The accompanying financial statements of the Bank as at and for the years ended December 31, 2023 (including comparative amounts as at and for the year ended December 31, 2022) were approved and authorized for issue by the Board of Directors (BOD) on April 13, 2024.

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2. Basis of Preparation

The accompanying financial statements of the Bank have been prepared using the measurement bases specified by Philippine Financial Reporting Standards (PFRSs) for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

2.1 Statement of Compliance

The accompanying financial statements of the Bank have been prepared in accordance with PFRSs.

The term PFRSs in general includes all applicable PFRS, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), and Philippine interpretations from International Financial Reporting Interpretations Committee (IFRIC). These standards are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy (BOA).

2.2 Going Concern Assumption

The preparation of the accompanying financial statements of the Bank is based on the premise that the Bank operates on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business. The management does not intend to liquidate nor cease its operations.

2.3 Functional and Presentation Currency

The financial statements are presented in Philippine Pesos (₱), the Bank's functional and presentation currency, and all values are presented in absolute amounts and are rounded off to the nearest peso except when otherwise indicated.

3. Changes in Accounting Policies

The Bank's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements:

3.1 Amended Standards Effective in 2023

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning January 1, 2023:

a.) PAS 8 (amendments), *Definition of Accounting Estimates*.
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The adoption of these amendments has no significant impact on the Bank's financial statements since the Bank's accounting policies are aligned with the amendments.

b.) PAS 1 and PFRS Practice Statement 2 (amendments), *Disclosure of Accounting Policies*.
The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The adoption of these amendments has had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the financial statements.

c.) PAS 12 (amendments), *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*.
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

The adoption of these amendments has no significant impact on the Bank's financial statements since the Bank's accounting policies are aligned with the amendments.

d.) PAS 12 (amendments), *International Tax Reform – Pillar Two Model Rules.*
The amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Cooperation and Development's (OECD) international tax reform. The amendments also introduced targeted disclosure requirements for affected entities.

The adoption of these amendments has no significant impact on the Bank's financial statements since the Bank's accounting policies are aligned with the amendments.

3.2 New and Amended Standards Effective Subsequent to 2023 but not Early Adopted

Pronouncements issued but not yet effective as at December 31, 2023 are listed below. The Bank intends to adopt the following pronouncements when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new pronouncements to have a significant impact on the financial statements.

Effective beginning on or after January 1, 2024

a.) PAS 1 (amendments), *Classification of Liabilities as Current or Non-current.*
The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and,
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024.

The Bank is currently assessing the impact the amendments will have on current practice.

b.) PAS 1 (amendments), *Non-current Liabilities with Covenants.*
The amendments modify the requirements introduced by *Classification of Liabilities as Current or Non-current* on how an entity classifies debt and other financial liabilities as current or non- current in particular circumstances: Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted and must be applied retrospectively.

The Bank is currently assessing the impact the amendments will have on current practice.

c.) PAS 7 and PFRS 7 (amendments), *Supplier Finance Arrangements.*
The amendments introduce two new disclosure objectives – one in PAS 7 and another in PFRS 7 – to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the Company's liabilities and cash flows, and the Company's exposure to liquidity risk.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

The Bank is currently assessing the impact the amendments will have on current practice.

d.) PFRS 16 (amendments), *Lease Liability in a Sale and Leaseback.*
The amendments include requirements for sale and leaseback transactions in PFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. The amendments confirm the following:
- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-leaseback transaction; and

- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.

The Bank is currently assessing the impact the amendments will have on current practice.

Effective beginning on or after January 1, 2025

a.) PFRS 17, *Insurance Contracts*.
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB. PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

The new standard is not applicable to the Bank since it has no activities that are predominantly connected with insurance or issue insurance contracts.

b.) PFRS 17 (amendments), *Initial Application of PFRS 17 and PFRS 9 – Comparative Information*.
The amendments add a transition option for a classification overlay to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of PFRS 17.

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted.

The amendment is not applicable to the Bank since it has no activities that are predominantly connected with insurance or issue insurance contracts.

c.) PAS 21 (amendments), *Lack of Exchangeability*.
The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted.

The Bank is currently assessing the impact the amendments will have on current practice.

Deferred

a.) 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 Associate or Joint Venture*.
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2020, the FSRSC deferred the original effective date of January 1, 2020 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The amendments are not expected to have a material impact on the financial statements.

4. Summary of Material Accounting Policies

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

4.1 Current versus Non-current Classification

The Bank presents assets and liabilities in the statements of financial position based on liquidity, while current or non-current classification is presented in Note 6.

An asset is classified as current when it is:

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

A liability is classified as current when it is:

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

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

4.2 Cash & Cash Equivalents

For purposes of reporting cash flows, cash & cash equivalents include cash & other cash items, due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value.

Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash & cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

4.3 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of observable inputs.

Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities

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

Level 3 : Inputs for assets or liabilities that are not based on observable market data (unobservable inputs)

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

The Bank's management determines the policies and procedures for both recurring and non-recurring fair value measurements.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

4.4 Financial Instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of Recognition
The Bank recognizes a financial asset or a financial liability in the statements of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date on which the Bank commits to purchase or sell the assets.

"Day 1" Difference
When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs

become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference amount.

Initial Recognition

The Bank initially measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at transaction price determined under PFRS 15.

Classification and Subsequent Measurement of Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI or FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss (debt instruments);
- Financial assets designated at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss (equity instruments); or,
- Financial assets at FVPL

Financial Assets at Amortized Cost. The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method, less any impairment in value. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortized cost includes cash & other cash items, due from BSP, due from other banks, loans & receivables, investment securities at amortized cost, and certain accounts under other assets account in the statements of financial position.

Financial Assets at FVOCI – Debt Instruments. The Bank measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

These financial assets are subsequently measured at fair value. Gains and losses arising from changes in fair value are included in OCI within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit or loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost.

Financial Assets at FVOCI – Equity Instruments. The Bank may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. The classification is determined on an instrument-by-instrument basis.

Gains or losses on these financial assets are never recycled to profit or loss. However, the Bank may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Equity instruments designated at FVOCI are not subject to impairment assessment.

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statements of financial position at fair value with net changes in fair value recognized in the statements of comprehensive income.

As of reporting date, the Bank does not have any financial assets at FVPL, or any debt or equity instruments at FVOCI.

Classification and Subsequent Measurement of Financial Liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL or financial liabilities at amortized cost.

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

After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included as finance costs in the statements of comprehensive income.

Financial liabilities at amortized cost include deposit liabilities, bills payable, and other liabilities (except for taxes payable, unearned income and capitalized interest and other charges).

Financial Liabilities at FVPL. Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statements of comprehensive income.

A financial liability may be designated at FVPL if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch);
- a host contract contains one or more embedded derivatives; or,
- a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in OCI.

The Bank has not designated any financial liability at FVPL. As of reporting date, the Bank has no financial liability at FVPL.

Reclassification of Financial Instruments

The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated. The Bank does not reclassify its financial liabilities.

Classification of Financial Instruments Between Debt and Equity

Financial instruments are classified as debt or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Derecognition

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

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,

- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations of that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

<u>Offsetting Financial Instruments</u>
Financial assets and liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assess that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

4.5 Bank Premises, Furniture, Fixtures and Equipment

These are tangible assets that are held for use in banking operations or for administrative purposes and are expected to be used during more than one period.

<u>Initial Recognition</u>
The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost of constructed assets includes cost of construction and other direct costs and are accumulated under construction-in-progress (CIP) account. Borrowing costs that are directly attributable to the construction of bank premises, furniture, fixtures and equipment are capitalized during the construction period. CIP are transferred to the related bank premises, furniture, fixtures and equipment account when the construction or installation and related activities necessary to prepare the property and equipment for the intended use are completed and are ready for service. Upon completion, these costs will be depreciated over the useful life of the assets.

<u>Subsequent Expenditures</u>
Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the period which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

Subsequent Measurement
Bank premises, furniture, fixtures and equipment accounted for under the cost model and are stated at cost less accumulated depreciation and depletion and any impairment in value. Land and CIP are stated at cost less any impairment in value.

Depreciation Method
Depreciation of bank premises, furniture, fixtures and equipment commences once the assets are available for use and computed using the straight-line method to allocate their cost over their EUL, as follows:

Asset	Estimated Useful Life
Buildings	20 years
Furniture, fixtures & equipment	2 – 5 years
Transportation equipment	5 – 8 years

Depreciation of an item bank premises, furniture, fixtures and equipment begins when it becomes available for use i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

Derecognition
Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations. When an asset is retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated impairment loss, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

4.6 Investment Properties

Investment properties comprise of land and buildings held to earn rentals or for capital appreciation or both, and not held to be used in production or sale in the ordinary course of business. Property held under a finance lease when the definition of an investment property is met.

Initial Recognition
Investment properties are measured initially at acquisition cost including transaction costs. Cost of properties that are in the course of being constructed or developed for future use as investment properties include construction costs and other direct costs, including borrowing costs directly attributable to the construction during the construction period.

When the investment property is acquired through an exchange transaction, the Bank measures the asset at its fair value, unless the fair value of such an asset cannot be reliably measured, in which case the asset acquired is measured at the carrying amount of asset given up.

Before foreclosing or acquiring any properties in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of the property to be booked exceeds 5-million, the appraisal must be made by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas (BSP). An in-house appraisal of all Real and Other Properties Acquired (ROPA) shall be made at least every other year. Provided, that immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

Subsequent Expenditures
Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred. Costs of replacement parts of an existing investment property are capitalized if the recognition criteria are met.

Subsequent Measurement
After initial recognition, investment properties, except land and property under construction, are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Land is stated at cost less accumulated impairment loss, if any.

Depreciation Method
Depreciation of buildings commences once they are available for use is computed using the straight-line method to allocate their cost over estimated useful lives. Estimated useful life of the buildings is 20 - 25 years.

Transfers
Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

For a transfer from investment property to inventories, the change in use is evidenced by commencement of development with a view to sale. When the Bank decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains and investment property and is not reclassified as owner-occupied property during the redevelopment.

Derecognition
Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in the year of retirement or disposal.

4.7 Foreclosed Assets and Non-current Assets Held for Sale

Foreclosed assets refer to real and other properties acquired (ROPA) or repossessed by the Bank from defaulting borrowers intended to be sold within one year from the date of classification as held for sale.

The Bank classified a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank’s control and there is sufficient evidence that the Bank remains committed to sell the asset.

Foreclosed assets not classified as non-current assets held for sale are accounted for in any of the following classifications using the measurement basis appropriate to the asset as follows:
a.) Land and buildings are accounted for as Investment property using the cost model under PAS 40;
b.) Bank-occupied property, chattels and other properties are accounted for other resources using the cost model under PAS 16; and,
c.) Financial assets are accounted for under PFRS 9.

Initial Recognition
The cost of assets foreclosed includes the carrying amount of the related loan.

Subsequent Measurement
Assets classified as held for sale are measured at the lower of cost and their fair value less costs to sell, similar to the principles of PFRS 5. The Bank shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale and will reclassify it to an appropriate classification of asset.

Profit or loss arising from the sale of assets held for sale is included as part of income from sale of assets under other income account in the statements of comprehensive income.

4.8 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substances which are controlled by the Bank as a result of past events and from which economic benefits are expected to flow to the Bank.

Initial Recognition
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Internally-generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of comprehensive income in the year in which the expenditure is incurred.

Subsequent Measurement
Intangible assets are accounted for under the cost model. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses, while intangible assets with indefinite useful lives are not amortized and are stated at cost less any accumulated impairment losses.

Amortization Method
The EULs of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at cash-generating unit (CGU) level. The EUL of an intangible asset is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Computer Software. This account refers to purchased software licenses that are used for the Bank's core banking system. The software licenses are not used in operating a particular hardware and are not integral parts of a related hardware. These are amortized over 2 – 5 years. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Goodwill. This account represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition of the Rural Bank of Mendez, Inc. in 2016.

Derecognition
A gain or loss arising from retirement or disposal of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the statements of comprehensive income when the asset is derecognized.

4.9 Other Assets

Other assets pertain to other resources that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

4.10 Impairment of Assets

If an asset's carrying amount is higher than its recoverable amount, the asset is judged to have suffered an impairment loss. The asset shall therefore be written-down to its recoverable amount and the difference shall be reported as impairment loss chargeable against operations during the period the loss was recognized.

Financial Assets
The Bank assesses its impairment based on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event but instead considers a broader range of information in assessing credit risk and measuring ECLs, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Bank extends its ECL estimation until the end of the life of the financial instrument (lifetime ECL). Both lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Definition of "Default" and "Cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have been cured) when it no longer meets any of the default criteria for a consecutive period of 180 days and has exhibited a satisfactory track record.

Determining SICR
At each reporting date, the Bank assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Bank's assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days ("backstop").

The Bank assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR 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.

Staging Assessment
The Bank categorizes financial instruments subject to the ECL methodology into three (3) stages:
- Stage 1 – comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Bank recognizes 12-month ECL for Stage 1 financial instruments.

- Stage 2 – comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Bank recognizes lifetime ECL for Stage 2 financial instruments.
- Stage 3 – comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Bank recognizes lifetime ECL for Stage 3 (credit-impaired) financial instruments.

Accordingly, BSFIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall, at a minimum, be subject to the following guidelines:

Individually Assessed Loans and Other Credit Accommodations

- Loans and other credit accommodations with unpaid principal and/or interest shall be classified and provided with 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	Minimum ACL	Maximum 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	Minimum ACL	Maximum 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 – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

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

- Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 143 (Credit Classification and Provisioning) shall be provided with ACL, as follows:

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

Collectively Assessed Loans and Other Credit Accommodations

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/1st restructuring	Substandard	25%	2 or 3[5]
61 – 90 days	Doubtful	50%	3[6]
91 days and over/2nd restructuring	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Minimum ACL	ACL (%) Maximum ACL		Stage
31 – 90 days	Substandard (underperforming)	10	10	3
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Transfer Between Non-Performing to Performing

The Bank transfers credit exposures from non-performing to performing when there is sufficient evidence to support their full collection. Such exposures should exhibit both of the following indicators:

- Quantitative – characterized by payments made within an observation period; and,
- Qualitative – pertain to the results of assessment of the borrower's financial capacity.

Generally, the Bank considers full collection is probable when payments of interest and/or principal are received for at least six (6) months.

Modified or Restructured Loans and Other Credit Exposures

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule, which may be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If modifications are considered by the Bank as substantial based on qualitative factors, the loan is derecognized as discussed under the derecognition policy of financial instruments.

If a loan or credit exposure has been renegotiated or modified without this resulting in derecognition, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded, based on the change in cash flows discounted at the loan's original EIR. The Bank also assesses whether there has been an SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms. Derecognition decisions and classification are determined on a case-by-case basis.

Measurement of ECL

ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) – an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.

- Loss-given default (LGD) – an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from any collateral.
- Exposure at default (EAD) – an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Discount rate – represents the rate to be used to discount an expected loss to present value at the reporting date using the original EIR determined at initial recognition.

In measuring ECL, the Bank considers forward-looking information depending on the credit exposure. The Bank applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported. Forward-looking macroeconomic information and scenarios consider:
- factors that may affect the general economic or market conditions in which the Bank operates, such as gross domestic product growth rates, gross national income, consumer price index, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Bank, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

The Bank also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit Classification and Provisioning
The Bank also complies with the BSP guidelines in setting up allowance for credit losses where the loans were categorized based on credit classifications:
- Pass – these are loans and other credit accommodations that do not have a greater- than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
- Especially Mentioned (EM) – these are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan.
- Substandard – these are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
- Doubtful – these are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets.
- Loss – these are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

Non-financial Assets
The Bank assesses at each reporting date whether there is an indication that its non-financial assets (e.g., bank premises, furniture, fixtures and equipment, investment properties, and intangible assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and it 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. 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 determining fair value less costs to sell, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. 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 assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognized in the expense categories of profit or loss consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4.11 Other Liabilities

Other liabilities mainly consist of accounts payable, due to Treasurer of the Philippines, accrued expenses, advance rentals, withholding taxes payable, and unclaimed balances.

4.12 Equity

Equity is the residual interest in the assets of the Bank after deducting all of its liabilities. It is increased by profitable operations and contribution by owners but is decreased by unprofitable operations and distribution to owners.

Share Capital and Share Premium
Share capital is measured at par value for all shares issued. Incremental costs directly attributable to the issue of new shares are shown in equity as a reduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value are recognized as share premium.

Surplus
Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amounts of dividends declared, if any. Surplus reserves represent appropriations from surplus that are intended to comply with statutory requirements and are restricted from dividend distribution.

Dividend Distribution

Dividend distribution to the Bank's shareholders is recognized as a liability and deducted from equity in the period in which the dividends are declared and approved by the BOD. Dividends that are approved after the reporting period are disclosed as events after the end of the reporting period.

4.13 Effective Interest Rate (EIR) Method

Interest income is recognized using the EIR method for all financial instruments measured at amortized cost. The EIR method is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial instrument.

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

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

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

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

4.14 Other Income and Expense Recognition

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

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, fees and commissions* – these are generally recognized over time as the service is being provided and is based on the various criteria of recognition for each specific income source. Commission and fees arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

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

a.) *Gain or loss from sale of assets* – income or loss from assets sold is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured.

b.) *Recovery on charged-off assets* – income arising from collections on accounts or recoveries from impairment items previously written off are recognized in the year of recovery.

4.15 Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Costs and expenses are recognized in profit or loss in the statements of comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or,
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the statements of financial position as an asset.

Finance Costs

All finance costs are reported in profit or loss on accrual basis, except to the extent that they are capitalized.

Other Operating Expenses

Other operating expenses normally include costs of administering the business as incurred by administrative departments.

4.16 Leases

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

Bank as Lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-Use Assets. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of cost to be incurred by the Bank in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease Liabilities. At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the date of initial application. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Leases of Low-Value Assets
The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Remeasurement of Lease Liabilities
A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:
a.) there is a change in the amounts expected to be payable under a residual value guarantee.
b.) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in profit or loss.

4.17 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees or for the termination of employment.

<u>Short-term Benefits</u>
These benefits are recognized as expense in the period when the economic benefit is given or as an asset when such costs may be capitalized and is measured at an undiscounted basis. These include salaries, wages and social security contributions, leave entitlement, profit-sharing, bonuses, and other non-monetary benefits.

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Termination Benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Bank's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefit, short-term employee benefits, or other long-term employee benefits.

Retirement Benefits

Under the existing regulatory framework, Republic Act No. 7641, otherwise known as the *Philippine Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining agreement and other agreements shall not be less than those provided under law. The law does not require minimum funding of the plan.

Republic Act No. 7641 relates to a defined benefit plan. A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statements of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from interest rates of zero-coupon government bonds, as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of related post-employment liability.

Service costs are recognized in profit or loss which include current service costs, past service costs, and gains or losses on non-routine settlements. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statements of comprehensive income.

Re-measurement, comprising of actuarial gains and losses from experience adjustments and changes in actuarial assumptions, is recognized in Other Comprehensive Income (OCI) in the period which they arise. Re-measurements are not classified to profit or loss in subsequent periods.

4.18 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

4.19 Income Tax

Income tax expense is composed of current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in OCI, in which case it is recognized in equity or OCI.

Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The current tax assets included in other current assets (presented as prepayments) and current tax liabilities presented as current tax payable are presented at gross amounts in the statements of financial position.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except;
- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and by the parent, venture or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences the carry-forward benefits of unused tax credits and any unused tax losses from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO) to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward benefits of unused tax credits and unused tax losses can be utilized except:
- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax relating to items recognized in OCI account are included in OCI account in the statements of comprehensive income and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

4.20 Earnings per Share (EPS) Attributable to Equity Holders

Basic EPS is computed by dividing net profit or loss for the year attributable to common equity holders of the Bank, after recognition of the dividend requirement of preferred shares, as applicable, by the weighted average number of issued and outstanding common shares during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted EPS is computed by dividing net profit or loss for the year attributable to common equity holders of the Bank by the weighted average number of issued and outstanding common shares during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted EPS does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on EPS.

The Bank has no dilutive potential common shares outstanding.

4.21 Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented as part of profit or loss in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

4.22 Foreign Currency Transactions and Translation

Transactions denominated in foreign currency are recorded in functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences arising from settlement or translation are recognized in profit or loss in the statements of comprehensive income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4.23 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include:

a.) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank;
b.) associates;
c.) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and,
d.) the Bank's retirement plan.

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

4.24 Events after the Reporting Period

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

5. Significant Accounting Judgments, Estimates & Assumptions

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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.

5.1 Judgments

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

a.) *Application of ECL to Financial Assets*
The Banks utilizes several ECL models to calculate the allowance for credit losses for its financial assets. These models require several judgments from the aspects of staging assessment, selection of accounts for specific impairment, as well as selection of macroeconomic scenarios. These judgments require assessments that may involve concurrence from the BOD and/or Senior Management.

PFRS 9 requires the Bank to perform staging assessment on its financial assets to determine their proper ECL measurement. This requires judgment as to the definition of default, as well as the presence of SIRC since initial recognition. Defining these terms requires assessment of internal credit risk management, as well as the product features and industry practice. Based on the Bank's assessment, there is an existence of SICR, across all loans, when a borrower becomes 31 days past due, while a borrower is defaulted at 91 days past due.

PFRS 9 also requires the Bank to measure ECL based on probability-weighted outcomes or scenarios, as well as reasonable and supportable information available, without undue cost and effort, considering, among others, future economic conditions. These macroeconomic scenarios and their forecasts should be based on the macroeconomic outlook by the BOD, as well as the trend current and historical macroeconomic variables. The Bank identifies several scenarios which is applied in the ECL.

b.) *Evaluation of Business Model Applied in Managing Financial Instruments*
The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high-quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Bank considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*.

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

d.) *Determination of Lease Term*
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 land and office spaces, the factors that are normally the most inherent are (i) if there are significant penalties should the Bank pre-terminate the contract, and (ii) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank did not include the renewal period as part of the lease term because the terms of most of the contracts are renewable upon the mutual agreement of the parties.

The lease term is reassessed if an option is actually exercised or not or the Bank becomes obliged to exercise or not. 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.

e.) *Distinction between Investment Properties and Bank-occupied Properties*
The Bank determines whether a property qualifies as investment property or bank-occupied property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Investment property comprises of real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment. Bank-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

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

f.) *Distinction between Operating and Finance Leases for Contracts where the Bank is the Lessor*
The Bank has entered into various lease agreements as a lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources.

g.) *Classification and Fair Value Determination of Acquired Properties*
The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current Assets Held for Sale (presented under Other Assets account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as financial assets if qualified as such in accordance with PFRS 9 or as Other Properties (presented under Other Assets account) if held for sale but the depreciable properties (other than building) are not yet disposed within certain years. At initial recognition, the Bank determines the fair value of the acquired properties through internally or externally generated appraisals. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 5.2.

h.) *Provisions and Contingencies*
In the normal course of the Bank's operations, there are various legal proceedings. The estimate of the probable costs for the resolution of claims has been developed in consultation with the outside legal counsel handling the Bank's defense in these matters and is based on an analysis of potential results. Management does not believe that the outcome of these matters will significantly affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding.

i.) *Recognition and Realizability of Deferred Tax Assets*
The Bank's assessment on the recognition of deferred tax assets as deductible temporary differences is based on projected taxable income in the following periods. Based on the Bank's projection and assessment, the deferred tax assets recognized from deductible temporary differences are expected to be realized in the following periods.

5.2 Estimates and Assumptions

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

a.) *Fair Values of Financial Instruments*
Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed by management. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments.

The fair values of financial assets and financial liabilities by category and their fair value hierarchy are set out in Note 30 to the financial statements.

b.) *Estimation of ECLs on Financial Assets*
The Bank's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Credit risk characteristics of the portfolio and its segments, and its corresponding correlation with macroeconomic variables;
- Recoverability from an asset upon its default;
- Expected exposures from financial assets;
- Appropriate models to be used in each component of ECL;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

For provisions calculated on an individual basis, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including the credit rating of the counterparty based on Bank's policies, the estimated net selling prices of collateral, including the hold-out period of such collateral, and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2023 and 2022 and the related allowance for credit losses are disclosed in Notes 11, 15 and 16.

c.) *Estimating Useful Lives of Depreciable and Amortizable Assets*
The Bank estimates the useful lives of depreciable and amortizable assets based on the period over which the assets are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The EUL of depreciable and amortizable assets are reviewed at least annually 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 these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. The amounts and timing of recording of depreciation and amortization expense for any period would be affected by changes in these factors and circumstances. There were no changes in the EUL of depreciable and amortizable assets in 2023 and 2022.

The carrying amounts and the related depreciation and amortization charges of depreciable and amortizable assets are as follows:

		2023		2022
Carrying amounts:				
Bank premises, furniture, fixtures & equipment – net[1] (Note 12)	₱	28,664,931	₱	29,125,649
Investment properties[2] – net (Note 14)		22,815,933		28,446,563
Intangible assets[3] – net (Note 15)		1,755,141		2,230,032
Depreciation & amortization charges:				
Bank premises, furniture, fixtures & equipment		8,061,080		7,486,574
Investment properties		4,417,414		4,570,848
Intangible assets		1,302,757		838,794

[1]*Excluding land and construction in progress*
[2]*Excluding land*
[3]*Excluding goodwill*

d.) *Fair Value Measurement of Investment Properties*
Investment properties are measured using the cost model. The fair value disclosed in Note 30 to the financial statements is determined by the Bank using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Company uses assumptions that are mainly based on market conditions existing at each reporting period, such as selling price under installment sales, expected timing of sale and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 14).

For investment properties with appraisals 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. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

e.) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR). The IBR for lease liability is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The carrying values of the Bank's right-of-use asset and lease liability are disclosed in Notes 12 and 13, respectively.

f.) *Determination and Valuation of Post-employment Defined Benefits*
The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 25.

g.) *Impairment of Non-financial Assets*
The Bank assesses impairment on its non-financial assets and considers factors such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators.

If such indicators are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the asset's fair value less cost to sell or value in use whichever is higher. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to be generated from the continued use of the asset.

Determining the recoverable amounts of the non-financial assets, which involve determination of future cash flows expected to be generated from continued use and ultimate disposition of such assets, require the use of estimates and assumptions that can materially affect the financial statements. Future events could indicate that these non-financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and performance of the Bank.

h.) *Realizability of Deferred Tax Assets*
The Bank reviews the carrying amount of deferred tax assets at each reporting date and reduces the 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 in the future. The amount of deferred tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

The Bank's deferred tax asset amounted to ₱9,999,617 and ₱13,498,124 as of December 31, 2023 and 2022, respectively (Note 26).

6. Maturity Profile of Assets and Liabilities

The table below presents the assets and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from reporting date:

	December 31, 2023			December 31, 2022		
	Within 12 Months	Beyond 12 Months	Total	Within 12 Months	Beyond 12 Months	Total
Assets:						
Cash & other cash items	₱ 20,470,032	₱ –	₱ 20,470,032	₱ 22,922,329	₱ –	₱ 22,922,329
Due from BSP	22,361,022	–	22,361,022	42,350,245	–	42,350,245
Due from other banks	482,828,276	–	482,828,276	543,805,986	15,000,000	558,805,986
Investment securities at amortized cost	545,573,015	194,947,228	740,520,243	562,487,826	219,769,150	782,256,976
Loans & receivables – net	58,362,963	425,853,024	484,215,987	57,489,047	341,429,245	398,918,292
Bank premises, furniture, fixtures & equipment – net	–	48,012,073	48,012,073	–	45,282,791	45,282,791
Investment properties – net	–	108,789,867	108,789,867	–	121,070,851	121,070,851
Deferred tax assets – net	–	10,004,609	10,004,609	–	13,498,124	13,498,124
Other assets – net	22,319,308	18,208,488	40,527,796	21,232,717	13,390,178	34,622,895
Total assets	1,151,914,616	805,815,289	1,957,729,905	1,250,288,150	769,440,339	2,019,728,489
Liabilities:						
Deposit liabilities	1,531,077,084	–	1,531,077,084	1,503,317,175	144,573,754	1,647,890,929
Bills payable	30,000,000	–	30,000,000	10,000,000	–	10,000,000
Current tax payable	1,693,498		1,693,498	855,014	–	855,014
Other liabilities	22,459,205	703,474	23,162,679	24,432,498	1,484,821	25,917,319
Total liabilities	₱ 1,585,229,787	₱ 703,474	₱ 1,585,933,261	₱ 1,538,604,687	₱ 146,058,575	₱ 1,684,663,262

7. Cash & Other Cash Items

This account consists of:

		2023		2022
Cash on hand & in vault	₱	11,713,232	₱	12,905,223
Cash in ATM		8,752,000		9,974,800
Checks & other cash items		4,800		42,306
Total	₱	20,470,032	₱	22,922,329

Cash on hand & in vault refer to moneys under the custody of the tellers and cashiers. It includes United States Dollar (USD) denominated bills amounting to US$1,006 in 2023 and US$1,706 in 2022, which were translated into the conversion spot rate at year-end.

Cash in Automated Teller Machine (ATM) refers to amount of cash in ATM as of end of reporting period.

Checks & other cash items refer to the total amount of checks and other cash items received after the selected clearing cut-off time until the close of the year-end regular banking day.

8. Due from Bangko Sentral ng Pilipinas (BSP)

This account is comprised of noninterest-bearing deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 15). In compliance with BSP Circular No. 1092 issued on July 27, 2020, the Philippine Peso deposit liabilities of the bank are subject to reserve requirement of 2% effective July 31, 2020.

On June 8, 2023, the BSP approved the reduction in reserve requirement (RR) ratio of deposit and deposit liabilities of banks from 2% to 1% by Circular No. 1175 amending the Section 251 of the Manual of Regulations for Banks (MORB) on *Required reserves against deposit and deposit substitute liabilities*.

		2023		2022
Due from Bangko Sentral ng PIlipinas	₱	22,361,022	₱	42,350,245
Total	₱	22,361,022	₱	42,350,245

As of December 31, 2023 and 2022, the Bank is in compliance with the BSP reserve requirement.

9. Due from Other Banks

The balance of this account represents deposits with the following:

		2023		2022
Private banks:				
Commercial banks	₱	382,990,582	₱	337,486,030
Rural and thrift banks		78,930,551		105,744,378
Government banks:				
Land Bank of the Philippines		20,907,143		115,575,578
Total	₱	482,828,276	₱	558,805,986

This account includes amounts in USD amounting to US$17,4838 in 2023 and US$16,728 in 2022, which were also translated into the conversion spot rate at year-end.

Annual interest rates on due from other banks range from 0% to 6.10% p.a. in 2023 and 0% to 4.75% p.a. in 2022. Interest income earned amounted to ₱ 10,010,142 and ₱3,631,180 for the years ended December 31, 2023, and 2022, respectively (see Note 21).

10. Investment Securities at Amortized Cost

This account consists of:

		2023		2022
Landbank of the Philippines	₱	99,172,113	₱	108,225,986
Commercial banks		641,348,130		674,030,990
Total	₱	740,520,243	₱	782,256,976

The range of average effective interest rates for the years ended December 31 follows:

	2023	2022
Landbank of the Philippines	–	–
Commercial banks	2.38% - 8.00%	1.40% - 8.00%

Interest income from these investment securities recognized in the statements of comprehensive income for the year ended December 31, 2023 and 2022 amounts to ₱40,231,618 and ₱17,019,211, respectively (see Note 21).

11. Loans & Receivables

This account consists of the following:

		2023		2022
Receivables from customers	₱	445,653,154	₱	377,294,164
Other receivables		38,589,833		21,624,128
Total	₱	484,242,987	₱	398,918,292

Total interest income earned from loans & receivables amounted to ₱83,617,781 and ₱72,601,799 in 2023 and 2022, respectively (see Note 21).

Annual interest rates ranges from:

	2023	2022
Receivables from customers	6% - 70%	6% - 70%
Other receivables	–	–

The Bank's loans & receivables have been subject to impairment testing. Impairment losses recognized for loans & receivables for the Bank (see Note 16).

While the Bank recognizes through the Statements of Comprehensive Income the movements in the ECLs computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its Surplus Free account at an amount necessary to bring at least the allowance for ECLs to 1% of all outstanding Stage 1 loan accounts (see Note 31).

As at December 31, 2023 and 2022, the Bank has no outstanding loans & receivables used as security for its liabilities.

Receivables from Customers
These refer to loans granted to borrowers and are broken down as follows:

		2023		2022
Commercial loans	₱	26,291,246	₱	32,289,835
Consumer loans		408,870,665		371,452,653
Agriculture-agrarian loans		44,456,680		11,776,805
Total loans	₱	479,618,591	₱	415,519,293
Unamortized interests and discounts		(170,000)		(298,925)
Amortized cost	₱	479,448,591	₱	415,220,368
Allowance for impairment		(33,795,437)		(37,926,204)
Net realizable value	₱	445,653,154	₱	377,294,164

Other Receivables
These are receivables, other than loans, from other counterparties and are broken down as follows:

		2023		2022
Sales contract receivables	₱	31,947,790	₱	23,677,407
Accrued interest receivables		15,100,111		6,404,789
Total		47,047,901		30,082,196
Allowance for impairment		(8,458,068)		(8,458,068)
Net realizable value	₱	38,589,833	₱	21,624,128

The breakdown of accrued interest receivable on financial assets:

		2023		2022
Investment securities at amortized cost	₱	14,393,757	₱	5,744,473
Due from other banks		706,354		660,316
Total	₱	15,100,111	₱	6,404,789

Sales contract receivables refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby title to the said property is transferred to the buyers only upon full payment of selling price. These bear annual interest rates of 20% in 2023 and 2022.

The following table provides for the breakdown of performing and non-performing sales contract receivables:

		2023		2022
Performing	₱	18,850,548	₱	10,546,503
Non-performing		13,097,242		13,130,904
Total	₱	31,947,790	₱	23,677,407

12. Bank Premises, Furniture, Fixtures & Equipment

The gross carrying amounts and accumulated depreciation, amortization and impairment of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below:

	December 31, 2023						
	Land	Buildings	Furniture, Fixtures & Equipment	Transportation Equipment	Construction-in-Progress	Right-of-Use Assets	Total
Cost	₱ 16,157,142	₱ 65,226,187	₱ 46,481,139	₱ 18,854,612	₱ 3,190,000	₱ 3,888,425	₱ 153,797,505
Accumulated depreciation	–	(46,263,449)	(42,176,584)	(14,014,040)	–	(3,331,359)	(105,785,432)
Net carrying amount	₱ 16,157,142	₱ 18,962,738	₱ 4,304,555	₱ 4,840,572	₱ 3,190,000	₱ 557,066	₱ 48,012,073

	December 31, 2022						
	Land	Buildings	Furniture, Fixtures & Equipment	Transportation Equipment	Construction-in-Progress	Right-of-Use Assets	Total
Cost	₱ 16,157,142	₱ 63,360,492	₱ 47,905,351	₱ 17,761,537	₱ –	₱ 3,888,425	₱ 149,072,946
Accumulated depreciation	–	(43,759,139)	(43,561,336)	(13,812,345)	–	(2,657,335)	(103,790,155)
Net carrying amount	₱ 16,157,142	₱ 19,601,352	₱ 4,344,015	₱ 3,949,192	₱ –	₱ 1,231,090	₱ 45,282,791

The reconciliation of the carrying amounts at the beginning and end of 2023 and 2022 of bank premises, furniture, fixtures & equipment is shown below:

	Land	Buildings	Furniture, Fixtures & Equipment	Transportation Equipment	Construction-in-Progress	Right-of-Use Assets	Total
Balances at December 31, 2021	₱ 16,157,142	₱ 18,388,095	₱ 5,220,295	₱ 3,949,657	₱ –	959,538	₱ 44,674,727
Additions	–	3,716,255	2,046,118	1,755,598	–	576,667	8,094,638
Depreciation and amortization charges for the year	–	(2,502,998)	(2,922,398)	(1,756,063)	–	(305,115)	(7,486,574)
Balances at December 31, 2022	₱ 16,157,142	₱ 19,601,352	₱ 4,344,015	₱ 3,949,192	₱ –	1,231,090	₱ 45,282,791
Additions	–	3,709,508	1,896,772	3,094,741	3,190,000	–	11,891,021
Disposal	–	(1,843,813)	–	(107,163)	–	–	(1,950,976)
Depreciation and amortization charges for the year	–	(2,504,310)	(2,786,549)	(2,096,197)	–	(674,024)	(8,061,080)
Adjustments	–		850,317		–	–	850,317
Balances at December 31, 2023	₱ 16,157,142	₱ 18,962,738	₱ 4,304,555	₱ 4,840,572	₱ 3,190,000	557,066	₱ 48,012,073

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed fifty percent (50%) of a bank's unimpaired capital. As at December 31, 2023 and 2022, the Bank has complied with this requirement.

The Bank has disposed of certain fully-depreciated bank premises, furniture, fixtures and equipment with acquisition costs amounting to ₱1,950,976 and nil in 2023 and 2022, respectively. Gain on sale of said assets recognized in the statements of comprehensive income amounted to ₱274,804 and ₱35,451 in 2023 and 2022, respectively (see Note 23).

As at December 31, 2023 and 2022, there were no indication of any impairment on the carrying amount of bank premises, furniture, fixtures and equipment.

None of the properties were used as security for any of the Bank's liabilities.

13. Leases

The Bank, as Lessee, has various lease agreements which mainly pertain to branch premises. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a Right-of- Use Asset under Bank Premises, Furniture, Fixtures & Equipment (see Note 12) and a Lease Liability under Other Liabilities (see Note 19) on the Statements of Financial Position.

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

The following are the amounts recognized in the Statements of Comprehensive Income in 2023 and 2022.

		2023		2022
Depreciation expense of right-of-use assets	₱	674,024	₱	305,115
Interest expense on lease liabilities		81,582		130,723
Rent expense relating to lease of short-term and low-value assets		–		241,500
Total	₱	755,606	₱	677,338

The use of extension and termination options gives the Bank added flexibility in the event that it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Bank's strategy and the economic benefit of exercising the option exceeds the expected overall cost. As at reporting dates, the terms of the lease contracts of the Bank are renewable upon mutual agreement of the parties.

The lease liabilities are secured by the related underlying assets. Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2023 and 2022:

		2023		2022
Within one (1) year	₱	695,010	₱	862,928
More than one (1) year to five (5) years		20,617		695,010
More than five (5) years		–		20,617
Total	₱	715,627	₱	1,578,555

<u>Right-of-Use Assets</u>
Details of right-of-use assets as at December 31 are as follows:

		2023		2022
Buildings and leasehold improvements	₱	557,066	₱	1,231,090
Total	₱	557,066	₱	1,231,090

Details pertaining to movements in right-of-use assets are disclosed in Bank Premises, Furniture, Fixtures & Equipment (see Note 12).

Lease Liabilities

As at December 31, 2023 and 2022, the movement in lease liabilities are as follows:

		2023		2022
Balances at beginning of year	₱	1,484,821	₱	1,235,174
Additions		–		922,951
Interest expense		81,582		130,723
Payments		(862,928)		(804,027)
Balances at end of year	₱	703,475	₱	1,484,821

The total cash outflow in respect to leases amounted to ₱862,928 and ₱804,027 in 2023 and 2022, respectively.

Lease Payments Not Recognized as Liabilities

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

The expenses relating to short-term leases and low-value assets amounted to nil and ₱241,500 in 2023 and 2022, respectively. There were no expenses relating to variable lease payments in 2023 and 2022. These are presented under Other Operating Expenses account (see Note 24) in the Statements of Comprehensive Income.

14. Investment Properties

Investment properties primarily consist of real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment.

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2023 and 2022 are shown below:

	December 31, 2023					
		Land		Buildings		Total
Cost	₱	96,872,319	₱	56,560,222	₱	153,432,541
Accumulated depreciation		–		(32,626,387)		(32,626,387)
Allowance for impairment		(10,898,385)		(1,117,902)		(12,016,287)
Net carrying amount	₱	85,973,934	₱	22,815,933	₱	108,789,867

	December 31, 2022					
		Land		Buildings		Total
Cost	₱	103,649,669	₱	58,410,616	₱	162,060,285
Accumulated depreciation		–		(28,846,151)		(28,846,151)
Allowance for impairment		(11,025,381)		(1,117,902)		(12,143,283)
Net carrying amount	₱	92,624,288	₱	28,446,563	₱	121,070,851

The reconciliation of the carrying amounts at the beginning and end of 2023 and 2022 of investment properties is shown below:

		Land		Buildings		Total
Balances at December 31, 2021	₱	88,492,108	₱	30,111,658	₱	118,603,766
Additions		11,326,788		6,354,815		17,681,603
Disposals		(7,194,608)		(3,449,062)		(10,643,670)
Depreciation charges for the year		–		(4,570,848)		(4,570,848)
Balances at December 31, 2022		92,624,288		28,445,563		121,070,851
Additions		947,480		2,124,927		3,072,407
Disposals		(7,597,834)		(3,338,143)		(10,935,977)
Depreciation charges for the year		–		(4,417,414)		(4,417,414)
Balances at December 31, 2023	₱	85,973,934	₱	22,815,933	₱	108,789,867

Income earned from investment properties under rental arrangements amounted to ₱3,105,459 and ₱2,384,465 in 2023 and 2022, respectively, and are presented as Rental under Other Operating Income account (see Note 23). Direct expenses incurred from these properties amounted to ₱4,417,414 and ₱4,570,848 in 2023 and 2022, respectively, and are presented as part of Other Operating Expenses account (see Note 24) in the Bank's financial statements.

The fair value of investment properties as at December 31, 2023 and 2022, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to ₱646.9 million and ₱505.1 million, respectively (see Note 30).

Gain on sale of investment properties amounted to ₱34,293,842 and ₱21,894,091 in 2023 and 2022, respectively, which are presented as part of other income in the statements of comprehensive income (see Note 23).

Direct expenses incurred from these properties such as taxes and licenses and litigation expenses amounted to ₱2,191,676 in 2023 and ₱1,789,917 in 2022, which are presented as part of other expenses in the statements of comprehensive income (see Note 24).

The Bank has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither to maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

15. Other Assets

The components of this account are shown below:

	Note/s		2023		2022
Accounts receivable – net		₱	12,413,780	₱	11,043,139
Goodwill			10,703,347		10,703,347
Prepaid – creditable withholding taxes			8,607,245		732,513
Prepaid retirement benefit	25		4,119,876		–
Prepaid expenses			2,051,898		8,926,420
Computer software – net			1,755,141		2,230,032
Stationery & supplies on hand			233,294		175,945
Petty & other cash funds			54,201		223,485
Documentary & postage stamps			31,135		31,135
Security deposits – net			–		456,799
Miscellaneous			557,879		100,080
Total		₱	40,527,796	₱	34,622,895

Accounts receivable mainly consists of receivables from remittance centers stationed at the Bank where customers may pay bills and other covered services. This account consists of as follows:

		2023		2022
Bancnet, Inc.	₱	9,281,116	₱	9,557,249
CIS Bayad Center, Inc.		5,075,445		4,901,429
Remittances centers and companies		1,536,635		878,485
Advances for insurance premiums		853,186		884,716
Advances to employees		1,856		2,000
Others		1,716,654		870,372
Net realizable value	₱	18,464,892	₱	17,094,251

As of December 31, net realizable value of accounts receivable is as follows:

		2023		2022
Accounts receivable	₱	18,464,892	₱	17,094,251
Allowance for credit losses		(6,051,112)		(6,051,112)
Net realizable value	₱	12,413,780	₱	11,043,139

Goodwill represents the excess of the cost of acquisition of the Bank over the fair value of the net assets acquired at the date of acquisition. This is from the acquisition of Rural Bank of Mendez, Inc. which was acquired in 2016. Roll-forward of this account is as follows:

		2023		2022
Cost	₱	10,703,347	₱	11,542,141
Adjustments		–		(838,794)
Net carrying amount	₱	10,703,347	₱	10,703,347

Management annually estimates the expected cash flows from the cash generating unit related to goodwill and computer software. As at December 31, 2023, there is no indication of any impairment loss on the carrying amount of intangible assets since its recoverable amount exceeds its carrying amount.

Computer software refers to the Bank's core banking system used in operations. This account consists as follows:

		2023		2022
Cost	₱	14,183,613	₱	13,205,035
Accumulated amortization		(12,428,472)		(10,975,003)
Net carrying amount	₱	1,755,141	₱	2,230,032

The reconciliation of the carrying amount at the beginning and end of 2023 and 2022 of computer software is shown below:

		Computer Software
Balances at December 31, 2021	₱	2,975,801
Additions		535,584
Amortization charges for the year		(1,281,353)
Adjustments		–
Balances at December 31, 2022		2,230,032
Additions		827,866
Amortization charges for the year		(1,302,757)
Balances at December 31, 2023	₱	1,755,141

Amortization of computer software amounting to ₱1,302,757 and ₱1,281,353 was charged to operating expenses in the statement of comprehensive income for December 31, 2023 and 2022, respectively (see Note 24).

Prepayments consist of quarterly income tax payments, creditable withholding taxes (CWT) and prior year's excess credits. CWTs are amounts withheld by the Company's customers from income payments subject to expanded withholding taxes (EWT). These are credited against income tax liability at the end of the taxable year.

Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate expense accounts in profit or loss when incurred.

Petty & other cash funds include funds for minor expenses and sinking fund for medical benefits of employees.

Security deposits represent non-interest bearing deposits made on utility companies usually refundable upon termination of services, reduced by certain charges, if any.

16. Allowance for Impairment

Changes in the allowance for impairment are summarized below:

		Loans & Receivables		Accounts Receivables		Investment Properties		Total
Note/s		11		15		14		
Balances at January 1, 2022	₱	55,913,565	₱	6,051,112	₱	13,868,288	₱	75,832,965
Impairment losses (recoveries)		–		–		–		–
Derecognition		(9,529,293)		–		(1,545,005)		(11,074,298)
Balances at December 31, 2022	₱	46,384,272	₱	6,051,112	₱	12,323,283	₱	64,758,667
Impairment losses (recoveries)		–		–		–		–
Write-offs		(2,538,933)		–		–		(2,538,933)
Derecognition		(1,591,834)		–		(126,996)		(1,718,830)
Balances at December 31, 2023	₱	42,253,505	₱	6,051,112	₱	12,196,287	₱	60,500,904

Disclosure on the movements of ECLs of Loans & Receivable and the transfers of allowance between stages are detailed in Note 31.

17. Deposit Liabilities

The breakdown of this account follows:

		2023		2022
Savings deposits	₱	1,164,427,539	₱	1,195,863,710
Time deposits		119,788,981		204,201,217
Demand deposits		246,860,564		247,826,003
Total	₱	1,531,077,084	₱	1,647,890,929

Savings deposits and demand deposits bear annual interest rates of 0.08% in 2023 and 2022. Time deposits bear annual interest rates that range from 0.10% to 1.10% in 2023 and 2022. Interest expense on deposit liabilities amounted to ₱5,429,557 and ₱5,697,973 in 2023 and 2022, respectively (see Note 22).

In compliance with the BSP Circular No. 1092 issued on July 27, 2020, deposit liabilities of the Bank are subject to reserve requirement of 1% and 2% in 2023 and 2022, respectively (see Note 8). As of reporting dates, the Bank is in compliance with these regulations.

18. Bills Payable

This account consists of borrowings obtained by the Bank from Land Bank of the Philippines (LBP) under a rediscounting privilege. Movements of this account are as follows:

		2023		2022
Balance at beginning of year	₱	10,000,000	₱	20,000,000
Availments		30,000,000		–
Repayments		(10,000,000)		(10,000,000)
Balance at end of year	₱	30,000,000	₱	10,000,000

The borrowings mature within one (1) year and bear annual interest rate of 5% in 2023 and 2022. Interest expense on bills payable incurred amounted to ₱27,500 and ₱11,389 in 2023 and 2022, respectively (see Note 22).

19. Other Liabilities

Other liabilities consist of the following:

	Note/s		2023		2022
Accrued expenses			11,885,084		6,529,337
Accounts payable			7,706,758		11,795,404
Due to Treasurer of the Philippines			1,592,684		1,592,852
Lease liabilities	13		703,475		1,484,821
Interest payable			613,450		567,794
Withholding taxes payable			328,425		366,227
Advance rentals			50,000		–
Retirement benefit obligation – net			–		3,265,158
Others			282,803		315,726
Total		₱	23,162,679	₱	25,917,319

Accrued expenses include accrued profit sharing to directors and employees, and taxes & statutory contributions payable.

Accounts payable are unsecured, noninterest-bearing obligations to certain counterparties related to banking operations such as BancNet, insurance companies, CIS Bayad Center, etc.

Due to Treasurer of the Philippines refers to all credits representing money, security or other evidence of indebtedness, including interest thereon, held by the Bank in favor of persons known to be dead or who have not made further credits (additions) or withdrawals during the preceding ten (10) years or more, which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended). These credits, including interest thereon, shall remain in this account up to the time the proceeds thereof have been remitted under court order to the Treasurer of the Philippines or other parties.

Interest payable pertains to accrued interest from deposits made by depositors to the Bank that are expected to be settled within 12 months.

Withholding taxes payables are withholding taxes on the compensation of the Bank’s employees and expanded withholding tax on the Bank’s supplier accrued in December and payable on the following month.

Advance rentals refer to advance payments made by the Bank’s lessors.

Others consists of unclaimed balances and other miscellaneous liabilities.

20. Equity

Share capital consists of:

	No. of Shares		Amount	
	2023	2022	2023	2022
Authorized:				
Common shares – ₱100.00 par value	1,900,000	1,900,000	₱ 190,000,000	₱ 190,000,000
Preferred shares – ₱100.00 par value	100,000	100,000	10,000,000	10,000,000
	2,000,000	2,000,000	₱ 200,000,000	₱ 200,000,000
Subscribed, issued, paid-up & outstanding:				
Common shares – ₱100.00 par value	1,888,798	1,888,798	₱ 188,879,800	₱ 188,879,800
Preferred shares – ₱100.00 par value	–	–	–	–
	1,888,798	1,888,798	₱ 188,879,800	₱ 188,879,800
Paid-up capital			₱ 188,879,800	₱ 188,879,800

On January 21, 2015, pursuant to the Articles and Plan of Consolidation, the Bank issued 1,888,798 common shares to the shareholders of the Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. in consideration of the net assets of both rural banks as at September 30, 2013 amounting to ₱215,691,631.

The excess of ₱26,811,831 over the par value of the shares issued were treated as share premium.

As at December 31, 2023 and 2022, the Company has fifty-six (56) shareholders, each owning 100 or more shares of the Company's shares of stock.

Preferred Shares

The Bank's preferred shares shall be issued only to PDIC on account of the financial assistance available under the Strengthening Program for Rural Banks (SPRB) in view of the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc.

Preferred shares are entitled to an annual dividend rate equal to prevailing 5-year FXTN rate, on the date of PDIC's subscription. The preferred shares are redeemable and convertible to common shares, at the discretion of PDIC, starting at the end of the 5th year but not later than the 10th year from issuance.

The Bank did not avail of the SPRB as of reporting dates and therefore, no preferred shares were issued and outstanding as of reporting dates.

Surplus Free

The details of the Bank's cash dividend distributions are as follows:

Date Declared and Approved	Record Date	Common Shares Dividends Amount	Per Share	Date Paid
January 15, 2022	January 15, 2022	₱ 5,005,317	₱ 2.65	February 18, 2022

General Loan Loss Provision

In 2018, the BSP issued BSP Circular No. 1011 which mandates among others, banks to set up a general loan loss provision equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered risk-free under existing regulations. Under the said Circular, if the PFRS 9 Stage 1 loan loss provision is lower than the required general loan loss provision, the deficiency shall be recognized as an appropriation of surplus free. As at December 31, 2023 and 2022, there were no appropriations made from surplus free since ECL provisions for both years are higher than the required general loan loss provision.

21. Interest Income

Interest income consists of the following:

		2023		2022
Loans & receivables	₱	83,617,781	₱	72,601,799
Investment securities at amortized cost		40,231,618		17,019,211
Due from other banks		10,010,142		3,631,180
Total	₱	133,859,541	₱	93,252,190

Interest income from investment securities and deposits with other banks have been subjected to 20% final withholding tax (see Note 26).

22. Interest Expense

Interest expense is composed of the following:

	Note/s		2023		2022
Deposit liabilities	17	₱	5,429,557	₱	5,697,973
Bills payable	18		27,500		11,389
Lease liabilities	13		81,582		130,723
Total		₱	5,538,639	₱	5,840,085

23. Other Operating Income

Other operating income is composed of the following:

	Note/s		2023		2022
Service charges, fees and commissions		₱	19,129,992	₱	19,351,525
Income from sale of assets	12, 14		34,568,646		21,929,542
Rental	14		3,105,459		2,384,465
Recovery on charged-off assets			68,026		200,908
Foreign exchange profit (loss)			(9,717)		–
Miscellaneous			391,828		134,667
Total		₱	57,254,234	₱	44,001,107

24. Other Operating Expenses

Other operating expenses consist of the following:

	Note/s		2023		2022
Salaries & employee benefits	25	₱	61,939,578	₱	55,076,232
Taxes, licenses & registration fees			15,049,910		11,664,127
Security & janitorial			9,344,489		8,310,649
Directors' profit sharing			8,746,967		1,951,579
Insurance			4,740,731		4,523,797
Power, light & water			3,916,173		3,871,532
Telecommunications			3,792,788		3,686,013
Fuel & lubricants			2,491,593		2,681,806
Repairs & maintenance			2,221,625		2,261,686
Litigation on assets acquired			2,191,676		1,789,917
Stationery & supplies			1,950,122		2,341,682
Information technology			1,449,245		1,422,848

(Forward)

Fees, commissions & other charges			1,290,326		1,229,469
Directors' fee			972,000		675,000
Management & professional fees			889,483		1,101,255
Representation & entertainment			856,145		756,183
Advertising & marketing			601,506		432,775
Transportation & travel			492,685		483,796
Donations & charitable contributions			280,166		108,900
Subscriptions & membership fees			161,414		216,816
Rental			–		241,500
Depreciation & amortization	12, 14, 15		13,781,251		13,696,590
Miscellaneous			1,427,360		1,311,481
Total		₱	138,587,233	₱	119,835,633

Insurance expense includes PDIC premium payments amounting to ₱3,296,619 in 2023 and ₱3,253,443 in 2022. Fees, commissions & other charges include BSP supervision fees amounting to ₱340,048 in 2023 and ₱348,132 in 2022.

25. Employee Benefits

Expenses recognized for salaries & employee benefits are presented below:

		2023		2022
Short-term employee benefits	₱	60,039,444	₱	51,875,754
Post-employment defined benefits		1,900,134		3,200,478
Total	₱	61,939,578	₱	55,076,232

Short-term Employee Benefits
The amount of short-term employee benefits is broken down as follows:

		2023		2022
Salaries & wages	₱	34,465,230	₱	32,887,711
Statutory contributions		4,012,409		3,486,223
Bonuses & profit sharing		10,588,507		4,313,167
Medical benefits		1,152,328		376,728
Other fringe benefits		9,820,970		10,811,865
Total	₱	60,039,444	₱	51,875,694

Post-employment Defined Benefits
The Bank maintains a funded and tax-qualified non-contributory retirement plan that is being administered by the trust and investments groups of BDO Unibank, Inc. and The Insular Life Assurance Co., Ltd. as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of five (5) years of credited service. The plan also provides for an early retirement age of 50 with a minimum of ten (10) years of credited service and late retirement up to age 80. Normal retirement benefit is an amount equivalent to one (1) month final salary rate for every year of credited service but not less than the regulatory benefit under R.A. No. 7641.

Actuarial valuations are made every three (3) years to update the retirement benefit costs. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2023.

Explanation of Amounts Presented in the Statements of Financial Position
The amounts of Plan Assets and Defined Benefit Obligation recognized under Other Assets account (see Note 15) and Other Liabilities account (see Note 19), respectively, in the Statements of Financial Position are determined as follows:

		2023		2022
Present value of the DBO	₱	18,982,486	₱	25,121,611
Fair value of plan assets		(23,102,363)		(21,856,453)
Net retirement benefit obligation (assets)	₱	(4,119,877)	₱	3,265,158

The movements in the present value of the DBO are as follows:

		2023		2022
Balance at beginning of year	₱	25,121,611	₱	22,454,815
Current service cost		1,770,834		2,008,976
Interest expense		994,816		1,191,502
Benefits paid by the plan		(4,373,951)		(533,682)
Actuarial loss (gain) arising from:				
▪ financial assumptions		(6,327,060)		–
▪ demographic assumptions		–		–
▪ experience adjustments		1,796,236		–
Balance at end of year	₱	18,982,486	₱	25,121,611

The movements in the fair value of plan assets are presented below:

		2023		2022
Balance at beginning of year	₱	21,856,453	₱	18,446,843
Contributions paid into the plan		5,134,305		4,307,104
Interest income		865,516		–
Benefits paid by the plan		(4,373,951)		(533,682)
Return (Loss) on plan assets*		(379,960)		(363,812)
Balance at end of year	₱	23,102,363	₱	21,856,453

**Amounts exclude interest income.*

The composition of the fair value of plan assets in 2023 for each category and risk characteristics amounted to ₱13,835,096, ₱1,151,228, ₱6,470,993, ₱215,160, and ₱75,390 for government bonds, corporate bonds, UITFs, loans & other receivables, and cash & cash equivalents, respectively.

Actual returns on plan assets were ₱379,960 and ₱363,812 in 2023 and 2022, respectively.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs, which are at Level 2, and loans & other receivables, which are at Level 3.

Explanation of Amounts Presented in the Statements of Comprehensive Income
The components of amounts recognized in profit or loss and other comprehensive income in respect of the retirement benefit obligation follows:

	Profit or Loss		Other Comprehensive Income	
	2023	2022	2023	2022
Current service costs	₱ 1,770,834	₱ 2,008,976	₱ –	₱ –
Interest expense (income) – net	129,300	1,191,502	–	–
Actuarial loss (gain) arising from:				
▪ financial assumptions	–	–	(6,327,060)	–
▪ demographic assumptions	–	–	–	–
▪ experience adjustments	–	–	1,796,236	–
Remeasurement losses (gains) arising from:				
▪ return on plan assets (excluding amounts included in net interest expense)	–	–	379,960	–
Total	₱ 1,900,134	₱ 3,200,478	₱ (4,150,864)	₱ –

Current service costs are presented as part of Salaries & Employee Benefits under Other Operating Expenses account while net Interest Expense (Income) are presented or offset against Interest Expense account (see Note 22 & 24) in the Statements of Comprehensive Income of the Bank.

Amounts recognized in OCI were included within the items that will not be reclassified subsequently to profit or loss in the Statements of Comprehensive Income.

Explanation of Amounts Presented in the Statements of Changes in Equity
The reconciliation of the cumulative actuarial losses recognized under other comprehensive income in the statements of changes in equity are as follows:

	Re-measurement losses on defined benefit liability	Related deferred taxes	Net reserves
Balance as at December 31, 2021	₱ (1,695,025)	₱ –	₱ (1,695,025)
Remeasurement losses (gains) arising from:			
▪ return on plan assets (excluding amounts included in net interest expense)	–	–	–
Balance as at December 31, 2022	₱ (1,695,025)	₱ –	₱ (1,695,025)
Actuarial loss (gain) arising from:			
▪ financial assumptions	6,327,060	–	6,327,060
▪ demographic assumptions	–	–	–
▪ experience adjustments	(1,796,236)	–	(1,796,236)
Remeasurement losses (gains) arising from:			
▪ return on plan assets (excluding amounts included in net interest expense)	(379,960)	–	(379,960)
Balance as at December 31, 2023	₱ 2,455,839	₱ –	₱ 2,455,839

Principal Actuarial Assumptions
Principal actuarial assumptions at the reporting date (expressed as weighted averages);

	2023	2022
Discount rate	6.31%	3.96%
Future salary increases	3.00%	3.00%

Discount rates are derived from interest rates of a zero-coupon government bonds, as published by the Philippine Dealing and Exchange Corporation that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of related post-employment liability. Assumptions regarding future mortality and disability have been based on published statistics and mortality rates of the 1994 Group Annuity Table and disability rates of the 1952 Disability Table.

Sensitivity Analysis and Discussion on Associated Risks
The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2023 and 2022:

		2023	2022
Discount Rate:			
Increase in assumption by 0.5%	₱	(235,831)	(480,338)
Decrease in assumption by 0.5%	₱	271,528	661,424
Salary Rate:			
Increase in assumption by 1%	₱	588,497	1,499,285
Decrease in assumption by 1%	₱	(451,611)	(872,690)

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants and to their future salaries and uses a discount rate determined by reference to market yields of government bonds. Generally, a decrease in interest rate of a reference government bond will increase the retirement liability. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The sensitivity is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

Benefit Payments Projection
The Company is not required to pre-fund the future defined benefits payable before they become due. However, in the event a benefit claim arises, the Company will be liable to pay its employees. The maturity profile of undiscounted expected benefit payments follow:

	2023	2022
Within one year	₱ 8,064,910	₱ 3,303,033
More than one year to five years	169,371	8,363,314
More than five years to ten years	2,510,004	3,796,667
More than ten years to fifteen years	4,507,197	3,487,490
More than fifteen years to twenty years	16,510,630	7,765,559
Beyond twenty years	162,301,561	189,177,174
Total	₱ 194,063,673	₱ 215,893,237

The weighted average duration of the defined benefit obligation at the end of 2023 is 22 years.

26. Income Tax

The computation of tax expense (benefit) as reported in the statements of comprehensive income:

Reported in Profit or Loss

		2023		2022
Current tax expense:				
Final taxes at 20%	₱	10,048,352	₱	–
MCIT at 1.5% and 1%		1,693,498		855,014
	₱	11,741,850	₱	855,014
Deferred tax expense (benefit):				
Origination and reversal of temporary differences	₱	3,498,507	₱	(1,668,260)
		3,498,507		(1,668,260)
Income tax expense (benefit)	₱	15,240,357	₱	(813,246)

Corporate Recovery and Tax Incentive for Enterprises (CREATE) Act
On March 26, 2021, the President of the Republic of the Philippines signed into law R.A. No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act, which amends certain provisions of the National Internal Revenue Code of 1997, as amended, with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act seeks to reduce the corporate income tax rate and rationalize the current fiscal incentives by making them time-bound, targeted and performance-based.

Among others, the key changes of the CREATE Act relevant to the Bank are as follows:
- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.0-million and with total assets not exceeding ₱100-million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%;
- Minimum corporate income tax (MCIT) is reduced from 2% to 1% for the period beginning July 1, 2020 until June 30, 2023;
- Imposition of improperly accumulated earnings tax of 10% is repealed;
- Allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Current Tax Computations
The Bank is liable to pay the higher between RCIT and MCIT as under the tax regulations.

Regular Corporate Income Tax
The computation of tax benefit from NOLCO is as follows:

	Note/s		2023		2022
Profit before tax		₱	46,987,903	₱	11,577,579
Add (Less): Adjustments					
Interest income subjected to final tax	21		(50,241,760)		(20,650,391)
Non-deductible interest expense			5,457,057		5,162,598
Fines and penalties	24		93,536		548,330
Non-deductible charitable contributions	24		280,166		108,900
Non-deductible representation & entertainment	24		19,967		–
Reversal of allowance	16		–		(9,529,293)
Non-deductible depreciation	12, 24		674,024		–
Lease payments	13		(862,928)		–
Interest expense on lease liabilities	13, 22		81,582		–
Lease expense differential			–		(10,374)

(Forward)

Retirement benefits expense	24		1,900,134		3,200,478
Deductible retirement plan contribution – normal cost	25		(1,724,961)		–
Amortization of past service cost	25		(340,934)		–
Retirement benefits paid	25		–		(533,682)
Loss from plan assets	25		–		363,812
Net taxable income		₱	2,323,786	₱	(9,762,043)
Applied NOLCO			(2,323,786)		–
Profit subject to RCIT (NOLCO)			–		(9,762,043)
RCIT rate			25%		25%
RCIT (Tax benefit from NOLCO)		₱	–	₱	(2,440,511)

Minimum Corporate Income Tax
The computation of MCIT is as follows:

	Note/s		2023		2022
Net interest income		₱	128,320,902	₱	92,574,703
Add (Less): Adjustments					
Interest income subjected to final tax	23		(50,241,760)		(20,650,391)
Non-deductible interest expense			5,457,057		–
Interest expense on lease liabilities	22		81,582		130,723
Adjusted net interest income		₱	83,617,781	₱	72,055,035
Other income			57,254,234		44,001,107
Direct costs:					
Salaries & employee benefits	24, 25		(24,335,510)		(26,953,192)
BSP supervision fees	24		(340,048)		(348,132)
PDIC insurance premiums	24		(3,296,619)		(3,253,443)
Gross income		₱	112,899,838	₱	85,501,375
MCIT rate			1.5%		1%
MCIT		₱	1,693,498	₱	855,014

Optional Standard Deduction (OSD)
Revenue Regulations No. 16-2008 prescribed the rules for OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income i.e., direct costs will be allowed to be deducted from gross sales.

The Bank opted to continue claiming itemized deductions instead of OSD for purposes of income tax calculation for the years ended December 31, 2023 and 2022.

Carry-forward Benefits from NOLCO and Excess MCIT
The Tax Code of 1997 provides for tax credit privileges for net operating loss carry over (NOLCO) and excess MCIT. NOLCO can be carried forward as a deduction from taxable income for the three (3) immediately succeeding taxable years following the year such loss was incurred. Any excess of MCIT over RCIT shall be carried forward and can be credited against RCIT for the next three (3) consecutive taxable years immediately following the year such MCIT was paid.

In 2020, pursuant to Section 4 (bbbb) of Republic Act No. 11494 (Bayanihan to Recover as One Act), the NOLCO for taxable years 2020 and 2021 can be carried over as a deduction for the next five (5) consecutive taxable years immediately following the year of such loss.

The amount of NOLCO and the applicable years these are valid and deductible from taxable income are shown below:

Taxable Years	Valid Until	Original Amount	Used/Expired 2023	Used/Expired 2022	Balance	Tax Effect
2022	2025	₱ 9,762,043	₱ –	₱ –	₱ 9,762,043	₱ 2,440,511
2021	2026	7,470,008	–	–	7,470,008	1,867,502
2020	2025	8,514,721	(2,323,786)	–	6,190,935	1,547,734
Total		25,746,772	₱ (2,323,786)	₱	₱	₱ 5,855,747

The amount of excess MCIT and the applicable years these are valid and creditable against RCIT are shown below:

Taxable Years	Valid Until	Original Amount	Used/Expired 2023	Used/Expired 2022	Balance
2023	2026	₱ 1,693,498	₱ –	₱ –	₱ 1,693,498
2022	2025	855,014	–	–	855,014
2021	2024	791,654	–	–	791,654
2020	2023	1,594,835	(1,594,835)	–	–
Total		₱ 4,935,001	₱ (1,594,835)	₱ –	₱ 3,340,166

<u>Deferred Tax Assets</u>
The schedule of deferred tax assets is as follows:

	Statements of Financial Position		Statements of Profit or Loss	
	2023	2022	2023	2022
Deferred tax assets:				
NOLCO	₱ 5,855,747	₱ 6,436,693	₱ (580,946)	₱ 2,440,511
Excess MCIT	3,340,166	3,241,503	98,663	855,014
Net lease liability (ROU assets)	36,602	3,003,638	(2,967,036)	(1,627,265)
Retirement benefit obligation	–	816,290	(816,290)	–
Unamortized past service costs	767,102	–	767,102	–
Deferred tax assets – net	₱ 9,999,617	₱ 13,498,124		
Deferred tax benefit – net			₱ (3,498,507)	₱ 1,668,260

<u>Reconciliation of Income Tax</u>
A reconciliation of tax on the pre-tax income computed at the applicable statutory rates to tax expense (benefit) reported in the statements of comprehensive income is as follows:

	2023	2022
Income tax computed at statutory tax rates of 25%	₱ 11,746,975	₱ 2,894,395
Additions (Reductions) resulting from:		
Income subject to lower tax rates: at 20% final tax	(2,512,088)	(5,162,598)
Non-deductible interest expense	1,364,264	1,454,957
Non-deductible expenses	98,418	–
Expired MCIT	1,594,835	–
Adjustments on DTA	2,947,953	–
Income tax expense (benefit)	₱ 15,240,357	₱ (813,246)

27. Basic Earnings Per Share

Basic earnings per share is computed as follows:

	Note/s		2023		2022
Profit attributable to common shareholders of the Bank		₱	31,747,546	₱	12,390,825
Divide by: Weighted average number of common shares outstanding	20		1,888,798		1,888,798
Basic earnings per share		₱	16.81	₱	6.56

There are no potential dilutive ordinary shares outstanding as at December 31, 2023 and 2022.

28. Related Party Transactions

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

In the normal course of business, the Bank transacts with related parties on an arm's length basis as at reporting dates. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

The Bank's policy on transactions with related parties is to ensure that there are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. Related party transactions should not involve more than the normal risk of collectability or present other unfavorable conditions.

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

Related Party	Nature	Terms & Conditions	Note/s	December 31, 2023 Amount of Transaction	Outstanding Receivable (Payable)
Directors	Deposit liabilities	These are demand and savings accounts with annual interest rates of 0.08%.	17	₱ 16,515,653	₱ 16,515,653
	Salaries & employee benefits – compensation & profit share		25	6,121,360	8,747,939
Key Management Personnel	Deposit liabilities	These are demand and savings accounts with annual interest rates of 0.08%.	17	27,367,460	27,367,460
	Loans receivable - DOSRI loans	These refer to employee loans under BSP approved plan at 12% annual interest with maturities of up to three (3) years; payable in cash.	11	(108,533)	–
		These refer to employee loans with annual interest rates ranging 8% - 11%; payable in cash.		286,972	286,972

				December 31, 2022	
Related Party	Nature	Terms & Conditions	Note/s	Amount of Transaction	Outstanding Receivable (Payable)
Directors	Salaries & employee benefits – compensation & profit share		25	₱ 2,626,579	₱ 2,626,579
Key Management Personnel	Loans receivable - DOSRI loans	These refer to employee loans under BSP approved plan at 12% annual interest with maturities of up to three (3) years; payable in cash.	11	37,178	108,533

Loans to Related Parties
Under existing policies of the Bank, these loans bear interest rates which are substantially the same terms as loans granted to other individuals and businesses of comparable risks per annum. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to twenty-five percent (25%) of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the Bank.

Deposits from Related Parties
Deposit liabilities from related parties have similar terms with other counterparties and bears annual interest rate of 0.08% in both 2023 and 2022 (see Note 17).

Transactions with Retirement Plan
Details of the contributions of the Bank and benefits paid out by the plan to the employees are presented in Note 25.

Key Management Personnel Compensation
The compensation and benefits given to the Bank's key management personnel are as follows:

	Note/s	2023	2022
Short-term employee benefits		₱ 4,603,411	₱ 3,645,067
Post-employment benefits		147,602	147,602
Total	25	₱ 4,751,013	₱ 3,792,669

29. Commitments and Contingencies

Litigations
The Bank has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As at December 31, 2023, management believes that no such legal proceedings are expected to have material adverse effect on the Bank's financial position

Operating Lease Commitments – Bank as Lessor
The Bank entered into various operating leases covering residential properties and commercial spaces with lease term of one year. Operating lease income, presented under Other Operating Income in the Statements of Comprehensive Income for the years ended December 31, 2023 and 2022 amounted to ₱3,105,459 and ₱2,348,465, respectively (see Note 21).

Future minimum lease receivables as of December 31, 2023 and 2022 under operating leases follow:

	2023	2022
Within one (1) year	₱ 3,105,459	₱ 2,384,465
Total	₱ 3,105,459	₱ 2,384,465

30. Fair Value Measurement

Carrying Amounts and Fair Values of Financial Instruments by Category

The carrying amounts and fair values of the categories of certain assets and liabilities presented in the statements of financial position are as follows:

		December 31, 2023		December 31, 2022	
	Note/s	Carrying amounts	Fair Values	Carrying amounts	Fair Values
Financial assets:					
At amortized cost:					
Cash & other cash items	7	₱ 20,470,032	₱ 20,470,032	₱ 22,922,329	₱ 22,922,329
Due from BSP	8	22,361,022	22,361,022	42,350,245	42,350,245
Due from other banks	9	482,828,275	482,828,275	558,805,986	558,805,986
Investment securities	10	740,520,243	740,520,243	782,256,976	782,256,976
Loans & receivables	11	484,242,987	484,242,987	398,918,292	398,918,292
Other financial assets	15	24,214,892	24,214,892	11,723,423	11,723,423
Non-financial assets:					
Investment properties	14	108,789,867	646,944,471	121,070,851	505,100,000
Total		₱ 1,883,427,318	₱ 2,421,581,922	₱ 1,938,048,102	₱ 2,322,077,251
Financial liabilities:					
At amortized cost:					
Deposit liabilities	17	₱ 1,531,077,084	₱ 1,531,077,084	₱ 1,647,890,929	₱ 1,647,890,929
Bills payable	18	30,000,000	30,000,000	10,000,000	10,000,000
Other financial liabilities	19	22,130,494	22,130,494	17,500,309	17,500,309
Total		₱ 1,583,207,578	₱ 1,583,207,578	₱ 1,675,391,238	₱ 1,675,391,238

Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for asset or liability that are not based on observable market data (unobservable inputs).

Fair Value Hierarchy for Financial Instruments

The following table summarizes the fair value hierarchy of the Bank's financial assets and liabilities, which are measured at fair value or requires disclosure as prescribed by other PFRS, as at December 31, 2023 and 2022:

		December 31, 2023			
	Note/s	Level 1	Level 2	Level 3	Total
Financial assets:					
At amortized cost:					
Cash & other cash items	7	₱ –	₱ 20,470,032	₱ –	₱ 20,470,032
Due from BSP	8	–	22,361,022	–	22,361,022
Due from other banks	9	–	482,828,275	–	482,828,275
Investment securities	10	–	740,520,243	–	740,520,243
Loans & receivables	11	–	484,242,987	–	484,242,987
Other financial assets	15	–	24,214,892	–	24,214,892
Non-financial assets:					
Investment properties	14	–	646,944,471	–	646,944,471
Total		₱ –	₱ 2,421,581,922	₱ –	₱ 2,421,581,922
Financial liabilities:					
At amortized cost:					
Deposit liabilities	17	₱ –	₱ 1,531,077,084	₱ –	₱ 1,531,077,084
Bills payable	18	–	30,000,000	–	30,000,000
Other financial liabilities	19	–	22,130,494	–	22,130,494
Total		₱ –	₱ 1,583,207,578	₱ –	₱ 1,583,207,578

	Note/s	December 31, 2022 Level 1	Level 2	Level 3	Total
Financial assets:					
At amortized cost:					
Cash & other cash items	7	₱ –	₱ 22,922,329	₱ –	₱ 22,922,329
Due from BSP	8	–	42,350,245.00	–	42,350,245.00
Due from other banks	9	–	558,805,986	–	558,805,986
Investment securities	10	–	782,256,976	–	782,256,976
Loans & receivables	11	–	398,918,292	–	398,918,292
Other financial assets	15	–	11,723,423	–	11,723,423
Non-financial assets:					
Investment properties	14	–	505,100,000	–	505,100,000
Total		₱ –	₱ 2,322,077,251	₱ –	₱ 2,322,077,251
Financial liabilities:					
At amortized cost:					
Deposit liabilities	17	₱ –	₱ 1,647,890,929	₱ –	₱ 1,647,890,929
Bills payable	18	–	10,000,000	–	10,000,000
Other financial liabilities	19	–	17,500,309	–	17,500,309
Total		₱ –	₱ 1,675,391,238	₱ –	₱ 1,675,391,238

As at December 31, 2023 and 2022, there are no financial assets or financial liabilities measured at fair value. There were no transfers between levels in 2023 and 2022.

Financial Instruments Not Measured at Fair Value for Which Fair Value is Disclosed
For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair value of investment securities at amortized cost is determined by direct reference to published price quoted in an active market for traded debt securities. For unquoted securities, the fair value is estimated using either the quoted market price of comparable investments or the discounted cash flow method.

The fair values of financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability base of the instrument where the significant inputs required to determine fair value of such instruments are not based on observable market data.

Fair Value Hierarchy for Non-Financial Assets
Details of the Bank's investment properties and the information about the fair value hierarchy as at December 31, 2023 and 2022 are shown below:

	Note/s	December 31, 2023 Level 1	Level 2	Level 3	Total
Investment properties	10	₱ –	₱ 646,944,471	₱ –	₱ 646,944,471

	Note/s	December 31, 2022 Level 1	Level 2	Level 3	Total
Investment properties	10	₱ –	₱ 505,100,000	₱ –	₱ 505,100,000

The fair value of investment properties of the Bank as of December 31, 2023 and 2022 (see Note 14) was determined on the basis of a valuation carried out on the respective dates by an internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with Management with respect to determination of the inputs such as size, age and condition of the land and buildings and the comparable prices in the corresponding property location.

In estimating the fair value of the properties, Management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on Management's assessment, the best use of the investment properties of the Bank indicated is their current use. The fair value discussed as determined by the appraisers were used by the Bank in determining the fair value of the investment properties.

31. Risk Management Policies and Objectives

Introduction
The Bank's operations expose it to diverse financial risks, which requires the Bank to manage varying degrees or combinations of risk. Risk-taking is inherent in the financial sector, and operations risks are an unavoidable consequence of conducting business. Consequently, the Bank's objective is to strike a suitable balance between risk and return while mitigating potential adverse impacts on its financial statements.

The Bank's risk management policies aim to identify and assess various risks, taking actions to mitigate the identified risks by establishing risk limits and controls, closely monitor the scenarios, and adjust systems and policies to effectively minimize risk levels. Regular reviews of the Bank's risk management policies and systems are conducted to adapt to market changes, product dynamics, and evolving best practices. This process of risk management is critical to the Bank's continuing profitability.

The BOD is ultimately responsible for overall risk management approach, monitoring risk exposures, and approving risk mitigation strategies and policies. Additionally, an internal audit team conducts and independent review of risk and management and the control environment.

The main risks arising from the Bank's financial instruments include credit risk, liquidity risk, market risk, and other operational risks, with market risk encompassing, currency risk, interest rate risk, and other price risks.

Market Risk
Market risk is the risk to earnings and capital arising from the possible decline in value from its funding costs, placements with other banks and investments in securities. The Bank has a conservative appetite for market risk, as reflected by its stable deposit base and low reliance on investment income. Moreover, it ensures that each investment is in accordance with current BSP regulations.

Interest Rate Risk
Interest rate risk is the risk that future cash flows from financial instruments or its fair value will fluctuate because of changes in market interest rates. The Bank prepares an interest rate gap analysis in the banking book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The banking book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from corporate and retail customers. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the repricing profile of its interest sensitive assets and liabilities in the banking book.

The BOD has established earnings at risk (EaR) limits on the interest rate exposure. Positions are monitored on a regular basis. Management monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the net worth of the Bank's total books. This is done by modeling the impact of various changes in interest rates to the net interest positions of the Bank's total books.

Given the repricing position of the assets and liabilities of the Bank's total books, if interest rates increased/decreased by 300 basis points, the Bank's total books would expect annualized net interest income to increase/decrease by ₱3,003,043 and ₱1,089,354 in 2023 and 2022, respectively. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary from the model.

In order to manage its net interest margin, the Bank places its excess funds in high yield investments and other short-term time deposits.

Credit Risk

Credit risk is the potential loss arising from the failure of borrowers and/or counterparties to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has clearly defined credit policy and standards for the approval and management of credit risk, which defines guiding principles and parameters for credit activities as well as the roles and responsibilities of each individual and/or function within the overall credit process. Credit policies and standards are periodically reviewed to ensure effectiveness and relevance.

The BOD has delegated responsibility for the management of credit risk oversight to its Credit Committee while reserving for itself approval authority for exposures exceeding pre-set limits, and macroeconomic scenarios in calculation of ECL. For instance, BOD approves overall credit strategy such as portfolio mix and delegates approval for the Bank's daily credit activities to the Credit Committee. Credit Risk Management department is responsible for management of the Bank credit risk, including (i) formulating credit policies covering credit assessment, risk grading and reporting, and compliance with regulatory and statutory requirements, (ii) monitoring the Bank's credit portfolio and concentration risk exposures, (iii) reviewing and assessing credit risk, (iv) maintaining the Bank's credit risk scorecards, (v) providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

The Bank's credit exposures principally arise from lending, treasury and other activities undertaken by the Bank. Credit risk in quantified through risk profile and performance metrics that are monitored and reported to the BOD on a monthly basis.

Credit Risk Exposure

The Bank's maximum exposure to credit risk in equal to the carrying value of its financial assets without taking into account of any collateral held or other credit enhancements as of December 31 is shown below:

	Note/s		2023		2022
Cash equivalents	7, 8, 9	₱	513,946,098	₱	611,173,337
Investment securities at amortized cost	10		740,520,243		782,256,976
Loans & receivables	11		526,666,492		445,601,489
Deposits with utility companies	15		5,750,000		456,799
Cash funds	15		54,201		223,485
Total		₱	1,786,937,034	₱	1,839,712,086

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

Collateral and Other Risk Mitigants

The Bank extends credit in a secured basis whenever possible and ensures that the terms and collateral are appropriate to the nature of credit accommodation extended to clients.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of the types of collateral and valuation parameters.

The main type of collateral obtained by the Bank is real estate mortgage.

The Bank's policy is to dispose the repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Credit Quality of Financial Assets

The credit quality of loans & other receivables is monitored and managed based on credit standing and history. The following tables illustrate the comparison of the credit quality of the Bank's loans & other receivables as at December 31, 2023 and 2022:

	Neither Past Due Nor Impaired		Past Due But Not	Past Due and	
December 31, 2023	High Grade	Standard Grade	Impaired	Impaired	Total
Cash & other cash items	₱ 8,756,800	₱ –	₱ –	₱ –	₱ 8,756,800
Due from BSP	22,361,022	–	–	–	22,361,022
Due from other banks	482,828,275	–	–	–	482,828,275
Investment securities at amortized cost	–	740,520,243	–	–	740,520,243
Loans & receivables – net	–	482,166,512	49,124,[illegible]	–	531,290,888
Other assets	–	24,269,093		–	24,269,093
Total	₱ 513,946,097	₱ 764,789,336	₱ 49,124,[illegible]	₱ –	₱ 1,810,026,321

	Neither Past Due Nor Impaired		Past Due But Not	Past Due and	
December 31, 2022	High Grade	Standard Grade	Impaired	Impaired	Total
Cash & other cash items	₱ 10,017,106	₱ –	₱ –	₱ –	₱ 10,017,106
Due from BSP	42,350,245	–	–	–	42,350,245
Due from other banks	558,805,986	–	–	–	558,805,986
Investment securities at amortized cost	–	782,256,976	–	–	782,256,976
Loans & receivables – net	–	367,781,850	13,969,876	16,867,641	398,619,367
Other assets	–	11,723,423	–	–	11,723,423
Total	₱ 611,173,337	₱ 1,161,762,249	₱ 13,969,876	₱ 16,867,641	₱ 1,803,773,103

The Bank evaluates credit quality on the basis of the credit strength of the security and/or counterparty/issuer. High grade financial assets are those which collectability is assured based on past experience. Standard grade financial assets are considered moderately realizable and some accounts which would require some reminder follow-ups to obtain settlement from the counterparty.

Loss Allowance

The tables below provide information how the significant changes in the gross carrying amounts of financial instruments in 2023 and 2022 contributed to the changes in the allowance for ECL:

	December 31, 2023			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – commercial:				
Balance at January 1, 2023	₱ 7,852,625	₱ 100,275	₱ 18,076,374	₱ 26,029,274
New financial assets originated or purchased	–	340,238	–	340,238
Derecognition of financial assets	–	–	(3,614,069)	(3,614,069)
Write-offs	–	–	(1,320,022)	(1,320,022)
Transfers from (to):				
Stage 1	(2,128,346)	2,128,346	–	–
Stage 2	–	(2,128,346)	2,128,346	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ 5,724,279	₱ 440,513.71	₱ 15,270,629	₱ 21,435,421
Receivables from customers – agriculture-agrarian:				
Balance at January 1, 2023	₱ 250,000	₱ –	₱ 3,097,312	₱ 3,347,312
New financial assets originated or purchased	–	–	(1,607,021)	(1,607,021)
Derecognition of financial assets	–	–	–	–
Write-offs	–	–	(239,013)	(239,013)
Transfers from (to):				
Stage 1	(250,000)	250,000	–	–
Stage 2	–	(250,000)	250,000	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ –	₱ –	₱ 1,501,278	₱ 1,501,278
Receivables from customers – others:				
Balance at January 1, 2023	₱ 1,421,365	₱ 28,480	₱ 15,344,472	₱ 16,794,317
New financial assets originated or purchased	–	–	–	–
Derecognition of financial assets	–	–	(1,421,365)	(1,421,365)
Write-offs	–	–	(978,448)	(978,448)
Transfers from (to):				
Stage 1	3,155,822	665,609	(3,155,822)	665,609
Stage 2	–	(694,089)	694,089	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ 4,577,187	₱ –	₱ 10,482,926	₱ 15,060,113

	December 31, 2022							
	ECL Staging							
		Stage 1		Stage 2		Stage 3		Total
Receivables from customers – commercial:								
Balance at January 1, 2022	₱	1,701,888	₱	462,461	₱	28,323,705	₱	30,488,054
New financial assets originated or purchased		–		–		–		–
Derecognition of financial assets		–		–		(4,458,780)		(4,458,780)
Write-offs		–		–		–		–
Transfers to:								
Stage 1		6,150,737		–		(6,150,737)		–
Stage 2		–		–		–		–
Stage 3		–		(362,186)		362,186		–
Balance at December 31, 2023	₱	7,852,625	₱	100,275	₱	18,076,374	₱	26,029,274
Receivables from customers – agriculture-agrarian:								
Balance at January 1, 2022	₱	181,460	₱	19,192	₱	4,435,591	₱	4,636,243
New financial assets originated or purchased		–		–		–		–
Derecognition of financial assets		–		–		(1,075,562)		(1,075,562)
Write-offs		–		–		–		–
Transfers from (to):								
Stage 1		68,504		–		(68,504)		–
Stage 2		–		–		–		–
Stage 3		–		(19,192)		19,192		–
Balance at December 31, 2023	₱	249,964	₱	–	₱	3,310,717	₱	3,560,681
Receivables from customers – others:								
Balance at January 1, 2022	₱	779,219	₱	84,127	₱	18,646,315	₱	19,509,661
New financial assets originated or purchased		–		–		–		–
Derecognition of financial assets		–		–		(2,715,344)		(2,715,344)
Write-offs		–		–		–		–
Transfers from (to):								
Stage 1		642,146		–		(642,146)		–
Stage 2		–		(55,647)		55,647		–
Stage 3		–		–		–		–
Balance at December 31, 2023	₱	1,421,365	₱	28,480	₱	15,344,472	₱	16,794,317

Significant Changes in Gross Carrying Amounts affecting Allowance for ECL

The tables below provide information how the significant changes in the gross carrying amounts of financial instruments in 2023 and 2022 contributed to the changes in the allowance for ECL:

	December 31, 2023			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – commercial:				
Balance at January 1, 2023	₱ 260,011,601	₱ 7,471,258	₱ 27,218,929	₱ 294,701,788
New financial assets originated or purchased	304,749,000	–	–	304,749,000
Derecognition of financial assets	(255,485,376)	–	(20,716,633)	(276,202,009)
Write-offs	–	–	(1,320,022)	(1,320,022)
Transfers from (to):				
Stage 1	(13,731,867)	13,731,867	–	–
Stage 2	–	(15,201,820)	15,201,820	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ 295,543,358	₱ 6,001,305	₱ 20,384,094	₱ 321,928,757
Receivables from customers – agriculture-agrarian:				
Balance at January 1, 2023	₱ 8,943,399	₱ –	₱ 2,833,407	₱ 11,776,806
New financial assets originated or purchased	39,917,500	–	–	39,917,500
Derecognition of financial assets	(6,010,150)	–	(988,465)	(6,998,615)
Write-offs			(239,013)	(239,013)
Transfers from (to):				
Stage 1	(8,228,903)	8,228,903	–	–
Stage 2	–	(7,830,578)	7,830,578	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ 34,621,846	₱ 398,325	₱ 9,436,507	₱ 44,456,678
Receivables from customers – others:				
Balance at January 1, 2023	₱ 108,948,484	₱ 6,627,580	₱ 23,546,830	₱ 139,122,894
New financial assets originated or purchased	76,469,100	–	–	76,469,100
Derecognition of financial assets	(33,342,588)	–	(21,159,903)	(54,502,491)
Write-offs	–	–	(978,448)	(978,448)
Transfers from (to):				
Stage 1	(19,466,191)	19,466,191	–	–
Stage 2	–	(22,126,033)	22,126,033	–
Stage 3	–	–	–	–
Balance at December 31, 2023	₱ 132,608,805	₱ 3,967,738	₱ 23,534,512	₱ 160,111,055

	December 31, 2022							
	ECL Staging							
		Stage 1		Stage 2		Stage 3		Total
Receivables from customers – commercial:								
Balance at January 1, 2022	₱	133,641,176	₱	16,016,328	₱	97,137,247	₱	246,794,751
New financial assets originated or purchased		286,734,500		–		–		286,734,500
Derecognition of financial assets		(167,235,669)		–		(71,591,795)		(238,827,464)
Write-offs		–		–		–		–
Transfers to:								
Stage 1		6,871,594		(6,871,594)		–		–
Stage 2		–		–		–		–
Stage 3		–		(1,673,476)		1,673,476		–
Balance at December 31, 2023	₱	260,011,601	₱	7,471,258	₱	27,218,928	₱	294,701,787
Receivables from customers – agriculture-agrarian:								
Balance at January 1, 2022	₱	11,651,646	₱	–	₱	5,762,776	₱	17,414,422
New financial assets originated or purchased		47,856,074		–		–		47,856,074
Derecognition of financial assets				–		(3,729,441)		(53,792,616)
Write-offs				–		–		–
Transfers from (to):								
Stage 1		–		–		–		–
Stage 2		(800,072)		800,072		–		–
Stage 3		–		(800,072)		800,072		–
Balance at December 31, 2023	₱	8,644,473	₱	–	₱	2,833,407	₱	11,477,880
Other receivables:								
Balance at January 1, 2022	₱	87,851,651	₱	7,472,408	₱	34,270,326	₱	129,594,385
New financial assets originated or purchased		77,835,198		–		–		77,835,198
Derecognition of financial assets				–		(47,802,173)		(68,306,688)
Write-offs				–		–		–
Transfers from (to):								
Stage 1		–		–		–		–
Stage 2		–		(844,828)		844,828		–
Stage 3		(36,233,849)				36,223,849		–
Balance at December 31, 2023	₱	108,948,485	₱	6,627,580	₱	23,536,830	₱	139,122,895

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 come due without incurring unacceptable losses or costs. The Bank has a conservative appetite for liquidity risk and has various options for emergency funding in the event of a liquidity crunch. Performance metrics are quantified and are stress tested under various scenarios, which are reported to the BOD on a monthly basis.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by always ensuring high collection performance. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

Maturity Profile of Financial Assets and Liabilities

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities made and disclosed in these financial statements.

	December 31, 2023			
	Due within one (1) year	Due beyond one (1) year but within five (5) years	Due beyond five (5) years	Total
Financial assets:				
Cash & other cash items	₱ 20,470,032	₱ –	₱ –	₱ 20,470,032
Due from BSP	22,361,022	–	–	22,361,022
Due from other banks	482,828,276	–	–	482,828,276
Investment securities at amortized cost	545,573,015	159,814,693	35,132,535	740,520,243
Loans & receivables	58,362,963	320,674,589	105,205,435	484,242,987
Other financial assets	22,319,308	–	18,208,488	40,527,796
Total	₱ 1,151,914,616	₱ 480,489,282	₱ 158,546,458	₱ 1,789,917,687
Financial liabilities:				
Deposit liabilities	₱ 1,531,077,084	₱ –	₱ –	₱ 1,531,077,084
Bills payable	30,000,000	–	–	30,000,000
Other financial liabilities	22,459,205	703,474	–	23,162,679
Total	₱ 1,583,536,289	₱ 703,474	₱ –	₱ 1,584,239,763
Positive (negative) liquidity gap	₱ (431,621,673)	₱ 480,489,266	₱ 158,546,458	₱ 205,677,924
Cumulative total gap	₱ –	₱ –	₱ –	₱ –

	December 31, 2022			
	Due within one (1) year	Due beyond one (1) year but within five (5) years	Due beyond five (5) years	Total
Financial assets:				
Cash & other cash items	₱ 22,922,329	₱ –	₱ –	₱ 22,922,329
Due from BSP	42,350,245	–	–	42,350,245
Due from other banks	543,805,986	15,000,000		558,805,986
Investment securities at amortized cost	562,487,826	141,874,572	77,894,578	782,256,975
Loans & receivables	57,489,047	291,125,305	50,303,940	398,918,292
Other financial assets	–	–	11,723,423	11,723,423
Total	₱ 1,229,055,433	₱ 447,999,877	₱ 139,921,940	₱ 1,816,977,251
Financial liabilities:				
Deposit liabilities	₱ 1,503,317,175	₱ 144,573,754	₱ –	₱ 1,647,890,929
Bills payable	10,000,000	–	–	10,000,000
Other financial liabilities	17,500,309	–	–	17,500,309
Total	₱ 1,530,817,484	₱ 144,573,754	₱ –	₱ 1,657,391,238
Positive (negative) liquidity gap	₱ (301,762,051)	₱ 303,426,123	₱ 139,921,940	₱ 159,586,013
Cumulative total gap	₱ –	₱ –	₱ –	₱ –

For the purpose of disclosure and to reflect the situational liquidity position, amount of past-due loans is presented in the longest time bucket, while savings and demand deposits are presented in the earliest time bucket.

Operational Risk

Operational risk is the risk of loss due to the Bank's (i) failure to comply with defined operational procedures; (ii) inability to address fraud committed internally or externally; (iii) inability to handle system failures; and, (iv) inability to cope with the impact of external events. The Executive Committee and Senior Management are responsible for managing operational risk exposures and manages operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses and having insurance and/or a business continuity plan to prepare for catastrophic losses.

A risk-based approach is used in mapping operational risks along critical/key business processes, addressing any deficiencies/weaknesses through the proactive process of identifying, assessing and limiting impact of risk in every business/operational area. Loss incidents are analyzed, escalated, recorded and followed up by each business unit, as well as overseen by the second line of defense. The BOD has also set up a robust Internal Audit team that works closely with Management to ensure all relevant audit findings are closed expeditiously.

32. Capital Management Objectives, Policies, & Procedures

The Bank implements a capital management policy that upholds a robust capital base, with the objective of preserving investor, creditor, and market trust, maintaining strong credit ratings and healthy capital ratios, while also fostering the on-going growth of the business towards maximizing shareholder value. In addition, the Bank acknowledges the influence of capital levels on shareholder returns and understands the importance of striking a balance between potentially higher returns through increased gearing and the security provided by a solid capital position.

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

The Bank manages its capital structure and appropriately effect adjustments according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations.

In order to maintain or adjust for good capital structure, the Bank carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary. No changes were made in the objectives, policies and processes from the previous years.

Capital Adequacy Ratio (CAR)
The Bank maintains an actively-managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

BSP Circular No. 688, *Revised Risked-Based Capital Adequacy Framework for Standalone Thrift Banks, Rural Banks, and Cooperative Banks*, which took effect on January 1, 2012, represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole.

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets.

For purposes of computing CAR, any asset deducted from qualifying capital in the numerator shall not be included in the risk-weighted assets in the denominator.

Minimum Capitalization
On October 29, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the MORB on the minimum capitalization of banks and on the pre-requisites for the grant of authority to establish a branch. Based on this circular, the Bank is required to maintain a minimum capitalization of ₱30.0 million.

However, on August 24, 2022, in relation to the Rural Bank Strengthening Program, BSP Circular No. 1151 raises the minimum capital requirements of rural banks. The Bank, having 8 branches, is therefore required to maintain a minimum capitalization of ₱120.0 million.

As of reporting dates, the Bank is in compliance with its minimum capital requirement for rural banks.

Regulatory Qualifying Capital
The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio or CAR is the total equity excluding:
a.) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
b.) total outstanding unsecured credit accommodations to DOSRI;
c.) deferred tax asset or liability; and,
d.) other regulatory deductions.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 (Core) Capital plus Tier 2 (Supplementary) Capital, net of required deductions from capital as prescribed by the BSP. Tier 1 Capital refers to the primary funding source of the Bank and consists of paid-in capital and retained earnings. Tier 2 Capital includes to revaluation reserves, hybrid capital instruments and subordinated term debt, general loan loss provisions, and undisclosed reserves.

The BSP requires BSP-supervised Financial Institutions (BSFIs) to 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. BSFIs are not required to provide 1% GLLP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

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

Risk-weighted assets are categorized based on credit risk, market risk, and operational risk. The Bank is not engaged in trading and has minimal foreign-denominated deposits from a bank which is subjected to immaterial market risk. The credit risk weighted assets and operational risk weighted assets are based on prevailing BSP regulations.

The CAR of the Bank as at December 31, 2023 and 2022, as reported to the BSP, is shown in the table below:

	2023		2022	
	Amount	Ratio*	Amount	Ratio*
Tier 1 capital	₱ 342,446,737	25.45%	₱ 313,413,795	25.18%
Tier 2 capital	–	0%	–	0%
Total qualifying capital	342,446,737	25.45%	313,413,795	25.18%
Risk weighted assets	₱ 1,345,362,434		₱ 1,244,478,291	

**Ratios presented as percentages of Tier 1 capital, Tier 2 capital, and total qualifying capital over risk weighted assets.*

As at December 31, 2023 and 2022, the Bank's CAR stands at 25.74% and 26.17%, respectively, which are in compliance with the BSP's minimum requirement.

As at December 31, 2023 and 2022, the Bank's Tier 1 CAR stands at 25.45% and 25.18%, respectively.

The level of capital as at December 31, 2023 and 2022 can absorb losses or downward adjustments to Tier 1 Capital amounting to ₱224,727,243 and ₱188,965,966, respectively, before it falls lower than the ten percent (10%) minimum level of capital or adequacy ratio.

Minimum Liquidity Ratio (MLR)
The MLR is expressed as a percentage of a covered institution's eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments. Standalone rural banks are subject to a MLR of 20%.

The Bank's MLR as at December 31, 2023 and 2022, as reported to the BSP is 97.87% and 100.83%, respectively.

As at December 31, 2023 and 2022, the Bank's MLR is in compliance with the regulatory requirements.

33. Supplemental Disclosure of Cash Flow Information

Changes in Liabilities Arising from Financing Activities
The disclosure requirements enable users of financial statements to evaluate changes in liabilities arising from financing activities of the Bank.

The movement of liabilities from financing activities are as follows:

December 31, 2023	January 1, 2023	Cash Flows	Reclassification	Interest Expense	December 31, 2023
Bills payable	₱ 10,000,000	₱ 20,000,000	₱ –	₱ –	₱ 30,000,000
Lease liabilities	1,484,821	(862,928)	–	81,582	703,475
Interest payable	567,794	(5,411,401)	–	5,457,057	613,450
Total liabilities from financing activities	₱ 12,052,615	₱ 13,725,671	₱ –	₱ 5,538,639	₱ 31,316,925

December 31, 2022	January 1, 2022	Cash Flows	Reclassification	Interest Expense	December 31, 2022
Bills payable	₱ 10,000,000	₱ 53,950,000	₱ (50,000,000)	₱ –	₱ 13,950,000
Lease liabilities	1,862,964	(179,981)	–	–	1,682,983
Deposits for future stock subscriptions	254,227,307	(8,077,745)	–	–	246,149,562
Interest payable	–	(774,250)		774,250	–
Total liabilities from financing activities	₱ 266,090,271	₱ 44,918,024	₱ (50,000,000)	₱ 774,250	₱ 261,782,545

Non-cash Activities
The Bank had no material non-cash investing or financing activity-related transactions for the period ended December 31, 2023 and 2022 except for the transactions involving foreclosure of collaterals (see Note 12).

34. Events After the End of the Reporting Period

There were no events that require adjustments or disclosures between the date of statement of financial position and the date of issuance of the audited financial statements.

35. Supplementary Information Required by BSP

Presented below are the additional information required by BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*, issued on January 8, 2020. This information is presented for BSP reporting purposes and is not a required in the basic financial statements.

Selected Financial Performance Indicators

The following are some indicators of the Bank's financial performance:

	2023		2022	
	Amount	Ratio	Amount	Ratio
Return on average equity:				
Net profit / Average total equity[1]	42,437,522 / 359,214,434	11.81%	12,299,872 / 332,182,011	3.70%
Return on average resources:				
Net profit / Average total resources[2]	42,437,522 / 1,993,838,562	2.13%	12,299,872 / 1,993,533,879	0.62%
Net interest margin:				
Net interest income / Average interest earning resources[3]	128,320,902 / 1,723,786,380	7.44%	87,412,105 / 1,648,443,873	5.30%

Capital Instruments Issued

As of December 31, 2023 and 2022, the Bank has only two (2) classes of capital stock – common and preferred shares.

	No. of Shares		Amount	
	2023	2022	2023	2022
Authorized:				
Common shares – ₱100.00 par value	1,900,000	1,900,000	₱ 190,000,000	₱ 190,000,000
Preferred shares – ₱100.00 par value	100,000	100,000	10,000,000	10,000,000
	2,000,000	2,000,000	₱ 200,000,000	₱ 200,000,000
Subscribed, issued, paid-up & outstanding:				
Common shares – ₱100.00 par value	1,888,798	1,888,798	₱ 188,879,800	₱ 188,879,800
Preferred shares – ₱100.00 par value	–	–	–	–
	1,888,798	1,888,798	₱ 188,879,800	₱ 188,879,800
Paid-up capital			₱ 188,879,800	₱ 188,879,800

Significant Credit Exposures for Loans

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

	2023			2022		
		Amount	Percent		Amount	Percent
Real estate activities	₱	217,206,692	45.30%	₱	211,414,090	50.92%
Wholesale and retail trade		57,232,417	11.94%		81,365,685	19.60%
Household consumption		31,460,017	6.56%		28,348,590	6.83%
Construction		19,503,136	4.07%		15,574,423	3.75%
Transportation and storage		26,805,762	5.59%		15,408,146	3.71%
Accommodation and food service activities		10,708,434	2.23%		11,771,066	2.83%
Agriculture, forestry and fishing		44,341,042	9.25%		11,477,881	2.76%
Education		10,806,712	2.25%		5,874,343	1.41%
Human health and social service activities		30,006,423	6.26%		2,541,692	0.61%
Mining and quarrying		1,389,772	0.30%		1,688,650	0.41%
Other service activities		29,988,182	6.25%		29,755,801	7.17%
Total	₱	479,448,589	100.00%	₱	415,220,368	100.00%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

As at December 31, 2023 and 2022, the Bank has a significant concentration risk exposure on the real estate sector having loans from this sector exceeding 30% of the total loan portfolio. As part of the Bank's risk management system, risk exposures are addressed by intensified monitoring of loans from these sectors.

As of December 31, 2023 and 2022, 10% of Tier 1 of the Bank amounted to ₱34,244,674 and ₱31,341,380, respectively. The table below shows the industry groups exceeding this level:

	2023			2022		
		Amount	Percent		Amount	Percent
Real estate activities	₱	217,206,692	45.30%	₱	211,414,090	50.92%
Wholesale and retail trade		57,232,417	11.94%		81,365,685	19.60%
Household consumption		31,460,017	7.00%		28,348,590	6.83%
Construction		19,503,136	4.07%		15,574,423	3.75%
Transportation and storage		26,805,762	5.59%		15,408,146	3.71%
Accommodation and food service activities		10,708,434	2.23%		11,771,066	2.83%
Agriculture, forestry and fishing		44,341,042	9.25%		11,477,881	2.76%
Education		10,806,712	2.25%		5,874,343	1.41%
Human health and social service activities		30,006,423	6.26%		2,541,692	0.61%
Mining and quarrying		1,389,772	0.29%		1,688,650	0.41%
Other service activities		29,988,182	6.25%		29,755,801	7.17%

Credit Status of Loans

According to BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans*, effective January 1, 2018, loans 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 contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Generally, NPLs refer to loans that have become past due in accordance with existing BSP rules and regulations. The outstanding balance shall be considered non-performing:

- in the case of loans payable in lump sum, quarterly, semi-annual or annual payments, when principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due with existing BSP rules and regulations;
- in the case of loans payable in monthly installments, when three or more installments are in arrears;
- in the case of loans payable in daily, weekly, semi-monthly installments, when the total amount of arrearages reaches ten percent (10%) of the total receivable balance;
- in the case of microfinance and other small loans, when the accounts have become past due or after contractual due date.

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

The breakdown of receivables from customers as to status is shown below:

	2023		
	Performing	Non-Performing	Total
Gross carrying amount:			
Commercial loans	₱ 376,735,395	₱ 26,796,498	₱ 403,531,893
Consumer loans	27,435,152	4,024,865	31,460,017
Agriculture-agrarian loans	35,020,171	9,436,508	44,456,679
Less: Allowance for ECL	(11,093,991)	(18,836,612)	(29,930,603)
Net carrying amount	₱ 428,096,727	₱ 21,421,259	₱ 449,517,986

	2022		
	Performing	Non-Performing	Total
Gross carrying amount:			
Commercial loans	₱ 267,482,859	₱ 27,218,931	₱ 294,701,790
Consumer loans	98,624,771	10,415,927	109,040,698
Agriculture-agrarian loans	8,644,474	2,833,406	11,477,880
Less: Allowance for ECL	–	–	–
Net carrying amount	₱ 374,752,104	₱ 40,468,264	₱ 415,220,368

Analysis of Loan Portfolio as to Type of Security

Details of the total loans receivable from customers, net of unearned interests or discounts, as to security follows:

	2023	2022
Secured loans:		
Real estate mortgage	₱ 442,093,493	₱ 368,639,349
Other securities	1,024,333	2,576,043
Sub-total	₱ 443,117,826	₱ 371,215,392
Unsecured loans	36,330,762	44,004,977
Total	₱ 479,448,558	₱ 415,220,368

Information on Related Party Loans

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior approval by BOD and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15% of its total loan portfolio whichever is lower, with any unsecured portion thereof not exceeding the lower between 30% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings.

BSP MORB Sections 341 to 345 provides the rules and regulations governing credit exposures to DOSRI.

The following table shows the percentage of the loans, other credit accommodations and guarantees grated to related parties and DOSRIs over the total loan portfolio:

	2023				2022			
	DOSRI		Related Parties (including DOSRI)		DOSRI		Related Parties (including DOSRI)	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total loans outstanding	₱ –	0.00%	₱ 286,972	0.06%	₱ –	0.00%	₱ 108,533	0.03%

The following table shows information relating to the loans, other credit accommodations and guarantees classified as related party loans and DOSRI accounts:

	2023				2022			
	DOSRI		Related Parties (including DOSRI)		DOSRI		Related Parties (including DOSRI)	
	Amount	Percent*	Amount	Percent*	Amount	Percent*	Amount	Percent*
Total loans outstanding	₱ –	100.00%	₱ 286,972	100.00%	₱ –	100.00%	₱ 108,533	100.00%
Unsecured loans	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Past due loans	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Non-performing loans	–	0.00%	–	0.00%	–	0.00%	–	0.00%

**Percentages represent the ratio of each line item over outstanding total DOSRI or Related Party loans.*

As at December 31, 2023 and 2022, the Bank is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Contingencies and Commitments arising from Off-Balance Sheet Items

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the Bank's financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that no additional material losses or liabilities are required to be recognized in the 2023 and 2022 financial statements of the Bank as a result of commitments and contingencies.

The summary of the Bank's commitments and contingent accounts is shown below:

		2023		2022
Unused credit lines	₱	7,902,121	₱	6,854,373
Items held as collateral/safekeeping		941		1,138

36. Supplementary Information Required by BIR

Revenue Regulations No. 15–2010

Pursuant to Revenue Regulations (RR) No. 15 - 2010 issued by the BIR on November 25, 2010, the following information is mandated to be included in the notes to financial statements as additional disclosure on taxes, duties and license fees paid or accrued during the taxable year. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Taxes & Licenses

This includes all other local and national taxes paid/accrued for the year imposed by the government, which are incurred under the normal course of business.

		2023		2022
National taxes:				
Gross receipts tax	₱	11,363,754	₱	8,204,385
Documentary stamps tax		2,481,207		2,197,654
BIR annual registration fee		6,000		6,000
Local taxes:				
Business permit and license		1,056,107		980,131
Real property taxes		275,345		177,806
Other taxes & licenses		267.401		98,149
Total		15,449,814		11,664,125

Gross Receipts Tax (GRT)

GRT, pursuant to Sections 121 and 122 of the Tax Code, is imposed on banks, non-banks financial intermediaries and finance companies (per R.A. No. 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 R.A. No. 9337).

		Tax Base				Gross Receipts Tax		
		2023		2022		2023		2022
Income derived from lending activities	₱	95,880,749	₱	79,773,850	₱	4,697,442	₱	3,988,692
Other income		85,184,675		60,704,344		6,666,312		4,215,693
Total		181,065,424		140,478,194		11,363,754		8,204,385

Documentary Stamps Tax (DST)

DST, at varying rates, is imposed on bank checks, drafts, certificates of deposit not bearing interest, bonds, loan agreements, promissory notes, and other instruments.

		2023		2022
Deposit & loan documents	₱	2,481,207	₱	2,197,654
Total	₱	2,481,207	₱	2,197,654

Withholding Taxes

Withholding taxes for the year as follows:

		2023		2022
Tax on compensation and benefits	₱	1,943,835	₱	1,071,934
Final withholding tax on interest		898,904		1,413,730
Creditable withholding tax		1,534,288		595,421
Total	₱	4,377,027	₱	3,081,085

Revenue Regulations No. 34–2020

Revenue Regulations No. 34–2020 issued by the BIR on December 21, 2020 prescribed the guidelines and procedures for the submission of BIR Form 1709, transfer pricing documentation and other supporting documents, amending the purpose of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010. As of the reporting date, the Bank is not covered by the requirements of preparation and submission of BIR Form 1709, TPD and other supporting documents.

II. Compliance with Appendix 62 of the MORB –Capital Adequacy Ratio Disclosure in the Annual Report

A. Capital Structure and Capital Adequacy

		2023 (in P Millions)	2022 (in P Millions)
1	Tier 1 capital		
	Paid up common stock	188.880	188.880
	Additional paid in capital	26.812	26.812
	Retained earnings	121.924	105.532
	Undivided Profits	33.019	12.300
	Total Tier 1 Capital	368.939	337.524
2	Tier 2 Capital		
	General Loan Loss Provision	3.865	3.306
3	Deductions from Tier 1 and Tier 2 Capital		
	Unsecured DOSRI		-
	Deferred tax asset	14.034	13.407
	Goodwill	10.703	10.703
	Intangible Asset,net	1.755	-
	Total Deductions	26.493	24.110
4	Total Qualifying Capital	346.312	316.720
7	Capital Requirement for Operational Risk	168.167	190.215
8	Total Capital Adequacy Ratio Tier 1 Capital Adequacy Ratio	25.74% 25.45%	25.45% 25.18%