Financial Statements of

Binhi Rural Bank, Inc.

December 31, 2023 and 2022

And

Report of Independent Auditors

BINHI Rural Bank

(Formerly Rural Bank of Balingasag, Inc.)
RBBI Building, Rizal corner Malvar Streets, Brgy 5 Poblacion
Balingasag 9005 Misamis Oriental
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Binhi Rural Bank, Inc. [Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.] is responsible for the preparation and fair presentation of its financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with Philippine Financial Reporting Standards (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.

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

The Board of Directors reviews and approves the financial statements and submits the same to the shareholders of the Bank.

Lope Laranjo Bato & Co., CPAs, the independent auditors appointed by the Board of Directors for the period December 31, 2023 and 2022, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their reports to the Board of Directors, have expressed their opinions on the fairness of presentation upon completion of such audits.

March 07, 2024, Cagayan de Oro City, Philippines

EDWARD V. ARGAYOSO
Chairman of the Board

CALVIN CEAZAR D. EMATA
VP-External Operations/ Acting CFO

MELISSA TAMARA O. ARGAYOSO
President / CEO

LOPE LARANJO BATO & CO.
Certified Public Accountants
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Firm's Accreditations:
BOA Accreditation No. 6358
Valid until September 13, 2024
BIR Accreditation No. 16-006925-000-2023
Valid until September 29, 2026
SEC Group C Accreditation No. 6358-SEC
Valid until Financial Audit 2025
BSP Group B Accreditation No. 6358-BSP
Valid until Financial Audit 2025
CDA CEA Accreditation No. 120-AF
Valid until April 7, 2024
NEA Accreditation No. 2023-11-00097
Valid until December 10, 2026

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Binhi Rural Bank, Inc.
Leope Building, Claro M. Recto Avenue, Brgy. 25
Cagayan de Oro City, Misamis Oriental

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Binhi Rural Bank, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Binhi Rural Bank, Inc. as of December 31, 2023 and 2022, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

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

- 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by the Bureau of Internal Revenue (BIR) and the Bangko Sentral ng Pilipinas (BSP) as disclosed in Notes 29 and 30 to the financial statements, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of the management of Binhi Rural Bank, Inc. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In compliance with Revenue Regulations V-20, we are stating that we are not related by consanguinity or affinity to the President, Manager, or any shareholder of the Bank.

LOPE LARANJO BATO & Co.

By: LOPE L. BATO, JR.
Managing Partner
CPA Cert. No. 73964
TIN 102-081-516
BIR Accreditation No. 16-006925-001-2023, valid until September 29, 2026
SEC Group C Accreditation No. 73964-SEC, valid until Financial Audit 2025
BSP Group B Accreditation No. 73964-BSP, valid until Financial Audit 2025
PTR No. 5750241-A, January 2, 2024, Cagayan de Oro City, Philippines

March 7, 2024
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

Binhi Rural Bank, Inc.

December 31	**2023**	2022
ASSETS		
Cash *(Note 4)*	**₱114,688,376**	₱79,649,728
Loans and Receivables *(Note 5)*	**172,787,933**	131,371,803
Financial Assets at Amortized Cost *(Note 6)*	**87,719,178**	81,149,920
Bank Premises, Furniture and Equipment *(Note 7)*	**25,116,249**	27,691,283
Investment Properties *(Note 8)*	**7,515,130**	8,436,817
Other Assets *(Note 9)*	**8,453,932**	6,446,913
Total Assets	**₱416,280,798**	₱334,746,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposit Liabilities *(Note 11)*	**₱273,198,094**	₱201,941,878
Bills Payable *(Note 12)*	**48,484,282**	41,617,942
Retirement Benefits Obligation *(Note 13)*	**1,478,206**	1,313,826
Finance Lease Liabilities *(Note 14)*	**18,153,958**	21,032,906
Other Liabilities *(Note 15)*	**5,682,236**	4,450,321
Total Liabilities	**346,996,776**	270,356,873
Shareholders' Equity	**69,284,022**	64,389,591
Total Liabilities and Shareholders' Equity	**₱416,280,798**	₱334,746,464

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Binhi Rural Bank, Inc.

Years Ended December 31	**2023**	2022
INTEREST INCOME *(Note 17)*		
On loans and receivables	**₱35,034,603**	₱30,794,596
On bank deposits and investments	**3,021,815**	1,787,577
Total interest income	**38,056,418**	32,582,173
INTEREST EXPENSE *(Note 18)*	**5,919,864**	4,879,138
NET INTEREST INCOME	**32,136,554**	27,703,035
OTHER INCOME *(Note 19)*	**18,060,468**	14,218,871
INCOME BEFORE IMPAIRMENT LOSS	**50,197,022**	41,921,906
LESS IMPAIRMENT LOSS *(Note 10)*	**1,118,917**	1,280,103
INCOME AFTER IMPAIRMENT LOSS	**49,078,105**	40,641,803
OPERATING EXPENSES *(Note 20)*	**44,748,197**	35,729,029
PROFIT BEFORE INCOME TAX	**4,329,908**	4,912,774
INCOME TAX EXPENSE (BENEFIT) *(Note 22)*		
Current	**-**	215,467
Deferred	**(1,385,202)**	(547,818)
PROFIT FOR THE YEAR	**₱5,715,110**	₱5,245,125
EARNINGS PER SHARE *(Note 24)*	**₱9.29**	₱8.53

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Binhi Rural Bank, Inc.

December 31	**2023**	2022
SHARE CAPITAL *(Note 16)*	**₱48,172,700**	₱48,172,700
SURPLUS FREE		
Balance at beginning of year	**16,216,891**	10,953,354
Profit for the year	**5,715,110**	5,245,125
Adjustments *(Note 23)*	**(820,679)**	18,412
Balance at end of year	**21,111,322**	16,216,891
	₱69,284,022	₱64,389,592

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS
Binhi Rural Bank, Inc.

Years Ended December 31	**2023**	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**₱4,329,908**	₱4,912,774
Adjustments for:		
Impairment loss *(Note 10)*	**1,118,917**	1,280,103
Recoveries of impairment losses *(Note 10)*	**(989,726)**	-
Depreciation *(Note 7 and 8)*	**6,583,501**	5,656,960
Adjustment to surplus *(Note 23)*	**(820,679)**	18,412
Retirement benefit expense *(Note 13)*	**164,380**	156,508
Gain on sale of investment properties	**(7,457,609)**	(4,952,244)
Changes in working capital:		
Increase in loans and receivables *(Note 5)*	**(42,535,047)**	(2,757,974)
Increase in other assets *(Note 9)*	**(621,817)**	(1,135,798)
Increase in finance liability *(Note 14)*	**(2,878,948)**	2,217,679
Increase in deposit liabilities *(Note 11)*	**71,256,216**	3,910,277
Increase in other liabilities *(Note 15)*	**1,231,915**	1,478,199
Cash generated from operation	**29,381,011**	10,784,896
Income tax refund (paid) *(Note 22)*	**-**	(174,664)
Net Cash generated from Operating Activities	**29,381,011**	10,610,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions to bank premises, furniture and equipment *(Note 7)*	**(3,988,224)**	(8,203,150)
Additions to financial asset *(Note 6)*	**(6,569,258)**	(12,900,726)
Additions in investment property *(Note 8)*	**(464,662)**	(5,753,155)
Proceeds from sale of investment properties *(Note 8)*	**9,813,441**	6,106,145
Net Cash for Investing Activities	**(1,208,703)**	(20,750,886)
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds of bills payable *(Note 12)*	**6,866,340**	9,823,680
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**35,038,648**	(316,974)
CASH AT BEGINNING OF YEAR *(Note 4)*	**79,649,728**	79,966,702
CASH AT END OF YEAR *(Note 4)*	**₱114,688,376**	₱79,649,728

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
Binhi Rural Bank, Inc.

Note 1
Bank Information

Organization
Binhi Rural Bank, Inc., was incorporated under Philippine laws by virtue of its registration with the Securities and Exchange Commission (SEC), Certificate of Registration No. 5939400, dated October 13, 2016 and TIN 000-562-644-000. The Bank was originally incorporated on January 30, 1970 under its original name: Rural Bank of Balingasag (Misamis Oriental), Inc. In anticipation of the expiry of its corporate life in a few years, the Bank already processed the extension of its corporate existence for another fifty (50) years, beginning February 10, 2020, as approved by the Security and Exchange Commission (SEC) on October 13, 2016. The Bank changed its name on the same date.

The Bank was originally granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate on February 12,1970. It was organized primarily to provide banking services such as: (a) extend loans and advances primarily for agricultural purpose, as well as for commercial and educational purposes; (b) accepts savings and time deposits; (c) accepts demand deposits; and (d) performs other services with the approval of the Monetary Board.

Head Office and Branch Address
The Bank's principal place of business is located at Leope Building, Claro M. Recto Avenue, Brgy. 25, Cagayan de Oro City, Misamis Oriental, 9000 Philippines. It has a branch located at Imbatug Baungon, Bukidnon, Philippines and BRBI Building, Rizal corner Malvar Street, brgy 5, Poblacion Balangasag, Misamis Oriental. The Bank also has eleven (11) Branch-lite Units located at: National Highway, Barangay 4, Balingasag; Tiano-Cruz Taal St., Poblacion 8, Cagayan de Oro City; Zone 5, Tin-ao, Agusan, Cagayan de Oro City; JP Calingin, Poblacion 5, Claveria, Misamis Oriental: Poblacion Sugbongcogon, Misamis Oriental; Purok 7, Poblacion Salay, Misamis Oriental; Zone 2, Poblacion Alubijid, Misamis Oriental; Zone 1, Kihare Tankulan, Manolo Fortich, Bukidnon; Amistoso Building Magsaysay St. Poblacion, Malitbog, Bukidnon; and Famas Building Mahayahay Cabug, Medina, Misamis Oriental.

Authorization for Issuance of Audited Financial Statements
The financial statements of the Bank for the years ended December 31, 2023 and 2022 were authorized for issue by the Board of Directors (BOD) on March 7, 2024.

Note 2
Summary of Significant Accounting Policies

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

Basis of Preparation of Financial Statements
The financial statements of the Bank have been prepared using historical cost basis. The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency and all values are rounded to the nearest peso except when otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Statement of Compliance
The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Changes in Accounting Policies and Disclosures
The Bank's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements effective as at January 1, 2023.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Bank.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, 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 judgement (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).

- Amendments to PAS 8, 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.

- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies
  The amendments provide guidance and examples to help entities apply materiality judgements 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

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, 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
  - ✓ 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 and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- 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 FRSC 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.

<u>Deferred effectivity</u>

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, 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, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 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.

Accounting policies currently being used are as follows:

<u>Cash</u>
Cash and other cash items, due from BSP and due from other banks include cash on hand, savings, and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

<u>Financial Assets</u>
Financial assets are recognized only when the Bank becomes a party to the contractual provisions of the financial statements.

Financial assets are classified based on their contractual cash flow characteristics and the business model for holding the instruments. Financial assets are initially measured at fair value plus transaction costs, except FVPL. Financial assets classified as FVPL are initially measured at fair value; transaction costs are expensed immediately.

<u>Financial assets that are debt instruments</u>

Financial assets measured at Fair Value through Profit or Loss (FVPL)
A financial asset shall be measured at fair value through profit or loss, except in the following cases:

- The financial asset is part of a hedging relationship, in which case, the provisions of PFRS 9 on the hedge accounting shall apply;
- The financial asset is measured at fair value through other comprehensive income (FVOCI); or
- The financial asset that is a debt instrument is measured at amortized cost.

Financial assets measured at fair value through profit or loss shall consists of the following:

i. Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;
ii. Financial assets designated at fair value through profit or loss (DFVPL) as defined in PFRS 9.

    The Bank may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the condition mentioned under PFRS 9, subject to the following requirements:

    - Bank shall have in place appropriate risk management systems including related risk management policies, procedures, controls; and
    - Bank shall apply the fair value option only to instruments for which fair values can be reliably estimated.

iii. Other financial assets which are mandatorily measured at fair value through profit or loss (MMFVPL) refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

Financial assets at Fair Value through Other Comprehensive Income (FVOCI)
A financial asset measured at FVOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieving by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets measured at amortized cost
A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

- The financial asset is held within a business model whose objective is 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 solely payments of principal amount outstanding.

Financial assets that are equity instruments

Financial assets that are equity instruments shall be classified under any of the following categories:

a. Financial assets measured at fair value through profit or loss which shall include financial assets HFT;

b. Financial assets at Fair Value through Other Comprehensive Income (FVOCI) which shall consists of:
    i. Financial asset designated at fair value through other comprehensive income (DFVOCI). Bank may, at initial recognition, irrevocably designate financial assets that are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, as measured at fair value through other comprehensive income.
    ii. Financial assets mandatorily measured at fair value. This includes investment in an equity instrument, previously accounted at cost per PAS 39, which does not have a quoted price in an active market for an identical instrument.

Impairment of Financial Assets
The Bank uses an expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, the Bank recognized credit impairment/allowance for credit losses even before and objective evidence of impairment becomes apparent.

The Bank considers past events, current conditions and forecasts of future economic conditions in assessing impairment.

a. The Bank applies the ECL method on credit exposures covered by PFRS 9, which include the following:
    i. Loans and receivables that are measured at amortized cost;
    ii. Investments in debt instruments that are measured at amortized cost or fair value through other comprehensive income (FVOCI); and
    iii. Credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVPL).

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

i. Stage 1 – credit exposures that are considered “performing” and with no significant increase in credit risk since initial recognition or with low credit risk.
   Stage 1 recognizes twelve (12)-month expected credit losses.

ii. Stage 2 – Credit exposures that are considered “under-performing” or not yet non-performing but with significant increase in credit risk since initial recognition.

   Stage 2 recognizes Lifetime expected credit losses.

iii. Stage 3 – Credit exposures with objective evidence of impairment, thus considered as “non-performing”

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

Twelve (12)-Month ECL

a. Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month ECL. The Bank exercises experienced credit judgement and considers both qualitative and quantitative information that may affect the assessment.
b. Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposure to the Philippine National Government and the Bangko Sentral.

Lifetime ECL

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

b. Bank shall measure lifetime ECL of the following:
   - Exposures that have significantly increased their credit risk from origination (Stage 2); and
   - Non-performing exposures (Stage 3).

Assessment of forward-looking information

Bank shall clearly demonstrate how forward-looking information, including macroeconomic factors, have been reflected in the ECL assessment and how these are linked to the credit risk drivers of the exposures.

Experienced credit judgement is essential in assessing the soundness of the forward-looking information and in ensuring that these are adequately supported.

Transfers from Stage 1 to Stage 2- Assessing of the significant increase in credit risk

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition:

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

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

c. The BSP shall apply the following indicators of significant increase in credit risk in Banks noted to have weak credit loss methodologies:
   - Exposures considered especially mentioned under Section 143 of the new digitized MORB;
   - Exposures with missed payment for more than thirty (30) days; and
   - Exposures with risk ratings downgraded by at least two (2) grades (e.g. exposure with risk rating of "3" on the origination date was downgraded to risk of "5" on the reporting date) for Banks with below fifteen (15) risk rating grades, and three (3) grades for Banks with fifteen (15) or above risk rating grades.

Transfers from Lifetime ECL to Twelve (12) month ECL
Bank shall transfer the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of probable collection prior their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the result of assessment of the borrower's financial capacity (e.g., improvement in counterparty's situation).

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

Banks shall observe the following guidelines for exposures that were reconstructed:

a. Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total one (1) year probation period (i.e., six (6) months in Stage 3 before transferring to Stage 2 , and another six (6) months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months); and
b. Restructured accounts classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6) month rule mentioned above.

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

a. *Exposures to non-retail counterparties.* Banks with multiple exposures to a non-retail counterparty shall measure ECL at the counterparty level. In particular, the Banks shall consider all exposures to a counterparty as subject to a lifetime ECL when any of its material exposure is subjected to lifetime ECL;
b. *Exposures to a retail counterparty.* Banks with multiple exposures to a retail counterparty shall measure ECL at the transaction level. In particular, Banks may classify one transaction under Stage 1 and another transaction under Stage 3. However, Banks are not precluded from taking into account the potential of cross default, such that if one exposure is classified under Stage 3 all other exposures may be classified under Stage 3; and
c. *Exposures to counterparties belonging to a group of related entities.* Banks with multiple exposures to counterparties that belong to the same group of related entities shall measure ECL at the counterparty level (per entity). Banks shall likewise consider in determining the stage under which the exposures shall be classified.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers and all receivables from customers and other Banks.
Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PFRS 9 and PFRS 7 (Amendments) shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Derecognition of financial assets occurs when the right to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

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

Building	30 years
Furniture, fixtures and equipment	1 to 10 years
Transportation equipment	1 to 5 years
Information technology equipment	1 to 5 years
Leasehold improvements	Estimated life or term of lease whichever is shorter
Other intangible asset	Useful life of asset

The carrying values of property and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of property and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

Investment Properties
Investment properties pertain to properties held by the Bank for capital appreciation, rather than for administrative purposes or sale in the ordinary course of business.

Investment properties are initially measured at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for impairment losses based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for impairment losses plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

Real properties acquired in settlement of loans and receivables are booked under ROPA accounts as follows:

- upon the date of entry of judgement in case of juridical foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of Deed of Dacion in case of dacion in payment.

These properties are carried at cost, which is the fair value at acquisition date including certain transaction cost, less accumulated depreciation and impairment in value.

Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the cost of the real properties acquired. Investment properties acquired through a non-monetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivable is used. The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on asset exchange' account in the statement of comprehensive income. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful life from the time of acquisition of the investment properties but not to exceed 10 years.

The transfer of a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. 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 their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) that the borrower will enter Bankruptcy or other financial reorganization;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or,
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Assets carried at amortized cost. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an

impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
If there is objective evidence that an impairment loss on loans and receivable or financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instruments' fair value using an observable market price.
The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the Board of Directors, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off is recognized in profit or loss.

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

Impairment assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than ninety (90) days or there are any known difficulties in the cash flow of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed impairment
The Bank determines the allowance appropriated for each significant loan or advances on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should Bankruptcy ensue, the availability of other financial support and realizable value of collateral, and the timing of the expected cash flows. The

impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more attention.

Collectively assessed impairment
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have no objective evidence as a result of individual impairment assessment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of impairment yet in an individual assessment.
Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Impairment of Non-Financial Assets
The Banks equity investments, bank premises, furniture, and equipment, investment properties and other assets are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. Any amount recovered is recognized in profit or loss during the period.

Financial Liabilities
Financial liabilities include deposit liabilities, bills payable and other liabilities.

Financial liabilities are recognized when the Bank becomes a party to the contractual agreement of the instrument. All interest and related charges are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost; any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Other liabilities and deposit liabilities are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments.

Dividends distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders.

Provisions
Provisions, if any, are recognized when the Bank has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and

estimate can be made of the amount of obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.
Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision.

Provisions are reviewed at each statement of financial condition date and adjusted to reflect the current best estimate. In those cases, where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements

Impairment of Financial Liabilities
A financial liability is derecognized when the obligation under the liability expires, is discharged or cancelled. 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 liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably. The following are the specific recognition criteria in recognizing revenue:

a. Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

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

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

b. Service charges, fees and commissions are generally recognized when the service has been provided. Other non-finance charges on loans and penalties on delinquent accounts are recognized upon actual collection.

c. Income from assets sold or exchanged – Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of Other Income account in the statement of profit or loss.

d. Rental income – Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in profit or loss as part of Other Operating Income.

e. Interest income from Bank deposits and investments is recognized on the accrual method.

Cost and expenses are recognized in the statement of income upon utilization of the service or at the date they are incurred. All finance cots are reported in profit or loss on an accrual basis.

<u>Leases</u>

Bank as lessee

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

i. Right-of-use assets (ROU)

The Bank recognizes ROU assets (included in 'Bank Premises, Furniture and Equipment') 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. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

Office space	5 to 10 years

ii. 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. 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 its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in "Finance Lease Liability" (Note 14).

iii. Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATMs and office equipment that are considered of low value (i.e. 250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Employees' Benefits

The Bank's employees are provided with the following benefits:

- *Retirement Benefits Obligation.* Retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit 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 the benefits of the retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.
- *Termination Benefits.* Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial condition date are discounted to present value.
- *Compensated Absences.* Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the balance sheet date. The amounts recognized are included in Trade and Other Payables account in the balance sheet at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement

Earnings per Share

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

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

Income Taxes

Current tax

Current tax asset and current tax liabilities for the current period 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 are enacted or substantively enacted as of the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of asset and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credit from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT), and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credit from MCIT and unused NOLCO can be utilized. Deferred tax assets and deferred tax liabilities, however, is not recognized on temporary differences that arise from 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 income nor taxable income.

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

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

Note 3
Significant Accounting Judgments and Estimates

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

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

Classifying Financial Assets Measured at Amortized Cost
The Bank follows the guidance of PFRS 9 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as Financial Asset Measured at Amortized Cost. This classification requires significant judgment. In making this judgment, the Bank considers its intention and ability to hold such investments to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments at maturity (other than for the allowed specific circumstances, e.g., selling more than an insignificant amount close to maturity), it will be required to reclassify. The investments would therefore be measured at fair value and not at amortized cost through profit or loss or fair value through other comprehensive income.

Impairment of Financial Assets
The Bank follows the guidance of PFRS 9 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Distinction Between Operating and Finance Leases
The Bank has entered into various lease agreements either as a lessor or lessee. 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 and liabilities.

Fair Value Determination for Investment Properties and Other Properties
The Bank classifies its acquired properties as Property and Equipment if used in operations, as Investment Properties if intended to be held for capital appreciation, as Financial Assets if qualified as such in accordance with PFRS 9 or as Other Properties if held for sale but the depreciable properties are not yet disposed within three years. At initial recognition, the Bank determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.
The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing material adjustment to the carrying amounts of resources and liabilities within the next financial year.

Impairment Losses on Financial Assets
The Bank reviews its investments and loans and receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgment as to whether there is any observable data indicating that there has been measurable decrease in the estimated future cash flows from a portfolio of similar financial assets.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic condition that correlates with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates and volatility rates. However, the amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income. The total impairment losses on financial assets recognized in profit or loss is presented in Note 10.

Estimating Useful Lives of Property and Equipment and Investment Properties
The Bank reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts. The carrying amount of property and equipment are presented in Note 7, while the carrying amount of investment properties are presented in Note 8. Based on management's assessment as at December 31, 2023 there is no change in the estimated useful lives of the assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors such as physical wear and tear, technical or commercial obsolescence or legal or other limits on the use of the assets.

Principal Assumptions for Management's Estimation of Fair Value
Investment properties are measured using the cost model. The fair value disclosed in Note 8 to the financial statements are mainly based on existing market conditions and actual transactions at the reporting date, such as selling price, expected timing of sale and appropriate discount rates. The expected selling price is determined on the basis of current appraised values of the properties or similar properties in the same location and condition.

Impairment of Non-Financial Assets
The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The

recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price 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 arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

Valuation of Post-Employment Defined Benefits
The determination of the Bank's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Bank believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumption may materially affect employee benefits obligation.

Note 4
Cash

For purposes of presenting the cash flows, cash consists of the following as of December 31, 2023 and 2022:

December 31	**2023**	2022
Cash and other cash items	**₱16,909,011**	₱9,345,152
Due from Bangko Sentral ng Pilipinas (BSP)	**3,186,560**	6,258,823
Due from other banks	**94,592,805**	64,045,753
	₱114,688,376	₱79,649,728

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the bank's clearing cut-off time until the close of the regular banking hours.

Due from Bangko Sentral ng Pilipinas (BSP) represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements. Section 252 of the MORB further provides that such deposit with the Bangko Sentral are not regular current accounts, drawings against such deposit shall be limited to (a) settlement of obligations with the Bangko Sentral, and (b) withdrawals to meet cash requirements. As reported to the BSP, the Bank was in compliance with such regulation on reserve requirements as of December 31, 2023.

Due from other banks consists of the following:

December 31	**2023**	2022
Demand and savings deposit	**₱76,578,034**	₱43,045,753
Time deposits	**18,014,771**	21,000,000
	₱94,592,805	₱64,045,753

Demand and savings deposits and time deposits earned interest from 0.001% to 0.30% and 0.50% to 4.50% per annum, respectively.

Interest income earned, net of final tax, arising from bank deposits amounted to ₱646,021 and ₱314,694 in 2023 and 2022, respectively (see Note 17).

Note 5
Loans and Receivables

The composition of loans and other receivables is as follows:

December 31	**2023**	2022
Loans:		
Agrarian reform	**₱67,722,040**	₱49,754,587
Commercial loans	**57,228,717**	46,804,674
Industrial loans	**10,000,000**	10,000,000
Others	**42,964,989**	28,354,320
Total	**177,915,746**	134,913,581
Allowance for impairment losses *(Note 10)*	**(9,767,770)**	(8,648,853)
Net loans receivable	**168,147,976**	126,264,728
Sales Contract Receivable:		
Sales contract receivable	**4,816,314**	5,274,572
Less sales contract receivable discount	**176,357**	167,497
Sales contract receivable – net	**4,639,957**	5,107,075
	₱172,787,933	₱131,371,803

Loans and other receivables earned interest from 6.50% to 60% per annum, respectively.

Interest income arising from loans and receivables amounted to ₱35,034,603 and ₱30,794,596 in December 31, 2023 and 2022, respectively (See Note 17).

The loans receivable from the Bank's customers are categorized as follows:

The maturity profile of the loans is as follows:

December 31	**2023**	**%**	2022	%
Due within one year	**₱49,997,565**	**28.10**	₱96,522,692	71.54
Over one year to five years	**127,918,181**	**71.90**	38,390,889	28.46
Total	**₱177,915,746**	**100.00**	₱134,913,581	100.00

Breakdown by Age of Accounts

December 31, 2023	*Current*	*Past Due*	*In Litigation*	***Total***
Agrarian reform	₱61,055,753	₱6,318,009	₱348,278	**₱67,722,040**
Commercial loans	52,318,454	3,389,926	1,520,337	**57,228,717**
Industrial loans	10,000,000	-	-	**10,000,000**
Others	37,189,059	5,775,930	-	**42,964,989**
Total	**₱160,563,266**	**₱15,483,865**	**₱1,868,615**	**₱177,915,746**
	90.25%	**08.70%**	**01.05%**	**100%**

December 31, 2022	*Current*	*Past Due*	*In Litigation*	***Total***
Agrarian reform	₱47,333,275	₱2,421,312	-	**₱49,754,587**
Commercial loans	43,238,834	2,643,075	₱922,765	**46,804,674**
Industrial loans	10,000,000	-	-	**10,000,000**
Others	20,383,586	7,970,734	-	**28,354,320**
Total	**₱120,955,695**	**₱13,035,121**	**₱922,765**	**₱134,913,581**
	89.65%	**09.66%**	**00.69%**	**100%**

The non-performing loans as defined under MORB 304 amounted to ₱10,930,729 and ₱5,628,493 on December 31, 2023 and 2022, respectively. As a general rule, non-performing loans refer to loans that 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

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests are probable and payments of interests and/or principal are received for at least six (6) months; or (b) written-off.

Portion of the past due accounts and accounts under litigation are covered by real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

The Bank’s loans to Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱4,575,398 and ₱4,305,833 as of December 31, 2023 and 2022, respectively (see Note 25).

Sales contract receivable (SCR) refers to real and other properties acquired and subsequently sold on installment basis whereby the title of the property is transferred to the buyer only upon full payment of the agreed selling price. SCR is initially recorded at the present value of the installment receivable discounted at imputed rate of interest. Discount shall be credited over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss in accordance with PAS 18 “Revenue” Furthermore, SCR shall be subject to impairment provision of PFRS 9.

The carrying amount of sales contract receivable as of December 31, 2023 and 2022 are as follows:

December 31	**2023**	2022
Sales contract receivable – performing	**₱4,816,314**	₱5,274,572
Less sales contract receivable discount	**176,357**	167,497
Total	**₱4,639,957**	₱5,107,075

The breakdown of loans and receivables as to their status is as follows:

December 31, 2023	Stage 1	Stage 2	Stage 3	**Total**
Loan receivable:				
Performing				
Current	₱154,430,411	-	-	**₱154,430,411**
Past due	-	₱12,554,606	-	**12,554,606**
	154,430,411	12,554,606	-	**166,985,017**
Non-performing				
Past due	-	-	₱9,062,114	**9,062,114**
In litigation	-	-	1,868,615	**1,868,615**
	-	-	10,930,729	**10,930,729**
Total	154,430,411	12,554,606	10,930,729	**177,915,746**
General loan loss provision	1,402,791	-	-	**1,402,791**
Specific loan loss provision	-	1,271,429	7,093,550	**8,364,979**
Carrying amount	₱153,027,620	₱11,283,177	₱3,837,180	**₱168,147,976**
Sales contract receivable:				
Current performing	₱4,816,314	-	-	**₱4,816,314**
Sales contract receivable discount	176,357	-	-	**176,357**
Carrying amount	₱4,639,957	-	-	**₱4,639,957**

Note 6
Financial Assets at Amortized Cost

This account consists of the following:

December 31	**2023**	2022
Investment in treasury bills	**₱58,942,000**	₱46,336,000
Investment in bonds	**29,000,000**	34,979,000
Total	**87,942,000**	81,315,000
Unamortized discount	**(222,822)**	(165,080)
	₱87,719,178	₱81,149,920

The reconciliation of the carrying amount of this account is presented below:

December 31	**2023**	2022
Balance at beginning of year	**₱81,149,920**	₱68,249,194
Additions	**87,719,178**	120,061,788
Maturities	**(81,149,920)**	(107,161,062)
	₱87,719,178	₱81,149,920

The interest rates for the year December 31, 2023 ranges from 4.73% to 6.15% for treasury bills and 3.5% to 6.13% for treasury bonds.

The investments earned interest amounting to ₱2,375,794 and ₱1,471,563 in 2023 and 2022, respectively (see Note 17).

The maturity profile as of December 31, 2023 and 2022 are as follows:

December 31	**2023**	2022
Less than 1 year	**₱58,727,168**	₱59,170,526
1-5 years	**28,992,010**	21,979,394
	₱87,719,178	₱81,149,920

Note 7
Bank Premises, Furniture and Equipment

The Bank premises, furniture and equipment, which are stated at cost, consists of the following:

December 31	**2023**	2022
Land	**₱599,632**	₱599,632
Buildings	**6,088,229**	6,088,229
Furniture, fixtures and equipment	**9,090,935**	6,964,729
Transportation equipment	**759,882**	759,882
Information technology equipment	**1,952,348**	1,885,848
Leasehold rights and improvements	**8,451,745**	6,381,276
Right-of-use assets	**26,143,202**	26,272,469
Total	**53,085,973**	48,952,065
Less accumulated depreciation on:		
Bank premises, furniture and equipment	**17,174,459**	13,965,004
Right-of-use assets	**10,795,265**	7,295,778
Net	**₱25,116,249**	₱27,691,283

The reconciliation of the movements of the accounts follows:

December 31, 2023	*Beg. Balance*	*Additions*	*Adjustments/ Retirements*	***End Balance***
Cost				
Land	₱599,632	-	-	**₱599,632**
Buildings	6,088,229	-	-	**6,088,229**
Furniture, fixtures and equipment	6,964,729	₱2,109,406	(₱16,800)	**9,090,935**
Transportation equipment	759,882	-	-	**759,882**
Information technology equipment	1,885,848	66,500	-	**1,952,348**
Leasehold improvements	6,381,276	2,074,539	4,070	**8,451,745**
	22,679,596	4,250,445	(12,730)	**26,942,771**
Accumulated Depreciation				
Buildings	5,142,062	205,847	-	**5,347,909**
Furniture, fixtures and equipment	4,708,147	1,599,903	-	**6,308,050**
Transportation equipment	759,880	-	-	**759,880**
Information technology equipment	1,262,284	148,252	-	**1,410,536**
Leasehold improvements	2,092,631	1,255,453	-	**3,348,084**
	13,965,004	3,209,455	-	**17,174,459**
Net Book Value	₱8,714,592	₱1,040,990	(12,730)	**₱9,768,312**

December 31, 2022	Beg. Balance	Additions	Adjustments/ Retirements	End Balance
Cost				
Land	₱599,632	-	-	**₱599,632**
Buildings	6,088,229	-	-	**6,088,229**
Furniture, fixtures and equipment	5,736,063	₱1,674,667	₱446,001	**6,964,729**
Transportation equipment	759,882	-	-	**759,882**
Information technology equipment	1,200,000	685,848	-	**1,885,848**
Leasehold improvements	4,465,239	1,470,036	(446,001)	**6,381,276**
	18,849,045	3,830,551	-	**22,679,596**
Accumulated Depreciation				
Buildings	4,926,850	215,212	-	**5,142,062**
Furniture, fixtures and equipment	3,661,564	1,139,758	93,175	**4,708,147**
Transportation equipment	759,880	-	-	**759,880**
Information technology equipment	824,147	438,137	-	**1,262,284**
Leasehold improvements	984,370	1,015,086	(93,175)	**2,092,631**
	11,156,811	2,808,193	-	**13,965,004**
Net Book Value	₱7,692,234	₱1,022,358	-	**₱8,714,592**

The detail of depreciation is as follows:

December 31	2023	2022
Bank premises, furniture and equipment	**₱3,209,455**	₱2,808,193
Right of use asset	**3,353,803**	2,848,767
	₱6,563,258	₱5,656,960

The Bank recognizes a right-of-use asset on its existing lease contracts as follows:

December 31, 2023	Beg. Balance	Additions	Adjustments/ Retirements	End Balance
Cost	₱26,272,469	-	₱129,267	**₱26,143,202**
Accumulated Depreciation	7,295,778	₱3,353,803	(145,684)	**10,795,265**
Net Book Value	₱18,976,691	(₱3,353,803)	₱274,951	**₱15,347,937**

December 31, 2022	Beg. Balance	Additions	Retirements	End Balance
Cost	₱21,899,870	₱4,372,599	-	**₱26,272,469**
Accumulated Depreciation	4,447,011	2,848,767	-	**7,295,778**
Net Book Value	₱17,452,859	₱1,523,832	-	**₱18,976,691**

The Bank leases office space for its various offices. With the exception of short-term leases each lease, in respect of right-of-use asset, is presented in the statement of financial position as part of Bank Premises, Furniture, and Equipment and in respect of the related obligation as Finance Lease Liability. Leases have terms ranging from five to ten years with renewal options and annual escalation rates from 2.0% to 5.0% in both 2023 and 2022.

Each lease imposes a restriction that the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be canceled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. The Bank must keep those premises in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The use of extension and termination options gives the Bank added flexibility in the event 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 business expansion unit's strategy and the economic benefits of exercising the option exceeds the expected overall cost.

Note 8
Investment Properties

Investment properties consist mainly of parcels of land and improvements acquired in settlement of loans which are held for capital appreciation. Per MORB Section 382, the carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets. Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively. Land, buildings and other non-financial assets shall be subject to PFRS 9 provisioning requirements.

The reconciliation of the carrying amount of investment properties is as follows:

December 31	**2023**	2022
Balance at beginning of year	**₱9,700,178**	₱5,073,841
Additions	**464,662**	5,753,155
Disposals	**(2,383,601)**	(1,126,818)
Total	**7,781,239**	9,700,178
Accumulated depreciation	**(17,305)**	-
Allowance for impairment losses *(Note 10)*	**(248,804)**	(1,263,361)
	₱7,515,130	₱8,436,817

Real and other properties acquired (ROPA) are acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

ROPA in settlement of loans through foreclosure or dation in payment shall be booked when: (1) upon entry of judgment in case of judicial foreclosure; (2) upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and (3) upon notarization of the deed of dacion in case of dation in payment (*dacion en pago*).

The movement of investment properties is as follows:

December 31, 2023	*Beg. Balance*	*Additions*	*Disposals/ Adjustments*	***End Balance***
Cost				
Land	₱9,700,178	₱464,662	₱2,593,184	**₱7,571,656**
Building	-	-	209,583	**209,583**
Total	9,700,178	464,662	2,383,601	**7,781,239**
Accumulated depreciation – building	-	(20,243)	(2,938)	**(17,305)**
Allowance for impairment loss *(Note 10)*	(1,263,361)	989,726	(24,831)	**(248,804)**
	₱8,436,817	₱1,434,145	₱2,355,832	**₱7,515,130**

December 31, 2022	*Beg. Balance*	*Additions*	*Disposals*	***End Balance***
Cost				
Land	₱5,073,839	₱5,753,155	₱1,126,816	**₱9,700,178**
Total	5,073,039	5,753,155	1,126,816	**9,700,178**
Allowance for impairment loss *(Note 10)*	(1,236,277)	(27,084)	-	**(1,263,361)**
	₱3,837,562	₱5,726,071	₱1,126,816	**₱8,436,817**

ROPA are booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for impairment losses based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for impairment losses plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure of the acquired real estate property).

Before foreclosing or acquiring any property in settlement of loans, the Bank properly appraised the property to determine its true economic value. If the amount of real and other properties acquired (ROPA) to be booked exceeds 5 million, an independent appraiser acceptable to the BSP conducts the appraisal. The Bank made an in-house appraisal of all ROPA at least every other year. Moreover, immediate re-appraisal is conducted on ROPA, which materially declines in value. Allowance for impairment losses is set up for any anticipated losses based on appraisal reports, current negotiations and programs to dispose of these properties.

These properties have estimated market value of ₱7,515,130 and ₱8,436,818 as determined by the Bank as for the years December 31, 2023 and 2022. The latest appraisal was done in 2022.

Gain on disposal amounted to ₱7,457,609 and ₱4,952,244 for 2023 and 2022, respectively (see Note 19).

Note 9
Other Assets

This account consists of the following:

December 31	**2023**	2022
Deferred tax asset	**₱4,729,156**	₱3,343,954
Retirement fund *(Note 13)*	**1,478,303**	1,313,928
Refundable deposit	**896,500**	836,500
Prepaid expense	**507,350**	104,937
Deferred charges - MCIT	**219,235**	-
Stationery and supplies on hand	**183,778**	149,793
Accrued interest receivable	**167,357**	146,629
Account receivable - employee	**107,395**	103,542
Petty cash fund	**85,000**	70,000
Prepaid income tax *(Note 22)*	**68,395**	242,630
Creditable withholding tax	**11,463**	-
Miscellaneous asset	**-**	135,000
	₱8,453,932	₱6,446,913

Deferred tax asset is 25% of deductible temporary differences. The reconciliation of the deferred tax asset follows:

December 31	**2023**	2022
Opening balances	**₱3,343,954**	₱2,796,136
Reversal on allowance for impairment loss	**(247,431)**	
Provision for impairment *(Note 10)*	**279,729**	320,026
Lease liability *(Note 14)*	**104,190**	181,356
Provision for retirement *(Note 13)*	**41,095**	39,127
NOLCO *(Note 22)*	**1,153,957**	-
Advance rental payment	**(4,600)**	7,309
Adjustments on prior year	**58,262**	
	₱4,729,156	₱3,343,954

Retirement fund includes savings deposit from China Bank amounting to ₱1,478,303 and ₱1,313,928 represents restricted fund for employees' retirement as at December 31, 2023 and 2022, respectively (see Note 13). During the year, the bank earned an interest income of ₱1,467 and ₱1,320 for the years ended December 31, 2023 and 2022, respectively.

Refundable deposit is composed of refundable deposit for photodynamic, ATM Encash, CEPALCO and building rental.

Deferred charges – MCIT amounting to ₱219,235 as at December 31, 2023 is available for offset over three years until December 31, 2026 against future income tax due of the bank.

The adjustments on prior year pertains to the adjustments made affecting prior year balances.

Note 10
Allowance for Impairment Losses

The accounting of the movement of the allowance for impairment losses consists of the following:

December 31, 2023	*Loans Receivable (Note 5)*	*Investment Properties (Note 8)*	***Total***
December 31, 2021	₱7,395,834	₱1,236,277	**₱8,632,111**
Impairment loss	1,253,019	27,084	**1,280,103**
December 31, 2022	8,648,853	1,263,361	**9,912,214**
Impairment loss	1,118,917	-	**1,118,917**
Disposal on ROPA	-	(24,831)	**(24,831)**
Reversal on impairment loss	-	(989,726)	**(989,726)**
December 31, 2023	**₱9,767,770**	**₱248,804**	**₱10,016,574**

Allowance for impairment losses for loans receivables is set up in accordance with PFRS 9 and MORB Appendix 15 guidelines in the classification of loans, and the provisioning requirements for classified loan accounts.

Note 11
Deposit Liabilities

This account consists of:

December 31	**2023**	2022
Savings deposits:		
Active	**₱176,261,688**	₱122,301,621
Dormant	**11,128,222**	9,115,736
Total savings deposits	**187,389,910**	131,417,357
Time deposits	**85,808,184**	70,524,521
	₱273,198,094	₱201,941,878

The Bank's deposit liabilities earn annual fixed interest of 0.30% compounded quarterly for savings deposits and 0.50% to 6.10% for time deposits.

This is withdrawable upon presentation of a properly accomplished withdrawal slip together with the corresponding passbook. Time deposits are due within one (1) to five (5) years.

The interest expense of Bank related to the deposit liabilities amounted to ₱3,847,145 and ₱3,345,892 for years ended December 31, 2023 and 2022, respectively (see Note 18).

Note 12
Bills Payable

December 31	**2023**	2022
Landbank of the Philippines	**₱46,984,282**	₱41,617,942
CARD SME Bank	**1,500,000**	-
	₱48,484,282	₱41,617,942

The bills payable represents rediscounting facilities extended by to the Bank for its working capital requirements and is secured by promissory notes of Bank's borrowers discounted at 85% of its face value and bears interest at 5.00% to 8.00%.

The bills payable incurred interest expense of ₱2,072,719 and ₱1,533,246 for the years ended December 31, 2023 and 2022, respectively (see Note 18).

The maturity analysis of bills payable follows:

December 31	**2023**	**%**	2022	%
Due within 12 months	**₱36,737,093**	**75.77**	₱34,673,996	83.32
Due more than 12 months	**11,747,189**	**24.23**	6,943,946	16.68
	₱48,484,282	**100.00**	₱41,617,942	100.00

The Bank is committed to settle its loans by meeting currently maturing amortizations.

The movement of bills payable follows:

December 31	**2023**	2022
Opening balances	**₱41,617,942**	₱31,794,262
Proceeds	**48,076,767**	59,171,434
Settlement of accounts	**(41,210,427)**	(49,347,754)
Closing balances	**₱48,484,282**	₱41,617,942

Note 13
Retirement of Benefits Obligation

Normal retirement shall be the first day of the month coincident with or next following the employee's 60th birthday provided he has served the Bank for at least five (5) years of credited service. The retirement shall represent 100% of the employee's basic monthly salary in the final year of service multiplied by the number of years in service provided that he has served the Bank for at least five (5) years of credited service.

With the consent of the Bank, an employee may elect to retire before the age of 60 provided he has reached the age of 50 and has served the Bank for at least five (5) years of credited service. The retirement shall represent 100% of the employee's basic monthly salary in the final year of service multiplied by the number of years in service.

An employee is allowed by the Bank to continue to work on a case to case and yearly extension basis beyond his normal retirement date up to age sixty-five (65). The retirement shall represent 100% of the employee's basic monthly salary in the final year of service multiplied by the number of years in service, including the extension of service.

The Bank's retirement benefits obligations as of the year end were established based on actuarial valuations as required under PAS/IAS 19 *Employee Benefits* and PAS/IAS 26, *Accounting and*

Reporting by Retirement Benefit Plans.

The computed retirement benefits obligation approximates the recorded retirement liability, thereby stating fairly the Bank's retirement benefit liability at the end of the year.
The amounts presented for the year 2023 in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary on January 2022.

The movements in the present value of the post-employment defined benefits obligation are as follows:

December 31	**2023**	2022
Balance at beginning of year	**₱1,313,826**	₱1,157,318
Current service cost	**164,380**	156,508
Balance at end of year	**₱1,478,206**	₱1,313,826

The movements of restricted fund are shown below:

December 31	**2023**	2022
Balance at beginning of year	**₱1,313,928**	₱1,170,679
Contributions to the plan	**162,908**	141,929
Interest income	**1,467**	1,320
Balance at end of year	**₱1,478,303**	₱1,313,928

The savings deposit from China Bank amounting to ₱1,478,671 and ₱1,313,928 represents sinking fund for employees' retirement for December 31, 2023 and 2022, respectively (see Note 9).

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

December 31	**2023**	2022
Reported in profit or loss:		
Current service cost *(Note 20)*	**₱164,380**	₱156,508
Reported in other comprehensive income:		
Actuarial losses (gains) arising from:		
Changes in demographic assumptions	**-**	-
Changes in financial assumptions	**-**	-
Deviations of experience assumptions	**-**	-
Interest income	**-**	-
	-	-

Retirement benefits expense is presented separately as part of compensation and employees' benefits.

There are no items qualified to be presented in other comprehensive income.

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

December 31, 2023	
Discount rates	**5.03%**
Future salary growth	**4.00%**

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 30 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary.

Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Interest Rate Risk

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will partially offset by an increase in the return on the plan's investments in debt securities and cash and cash equivalents and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan consists of cash and cash equivalents and government securities.

Longevity and Salary Risk

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

Note 14
Finance Lease Liability

This account represents the present value of the finance lease payments for the years ended December 31, 2023, and 2022, amounted to ₱18,153,958 and ₱21,032,906, respectively. This amount consists of rental payments that are not paid as of the date of application of PFRS 16, Leases, discounted using the Bank's incremental borrowing rate of 7.50%.

December 31	**2023**	2022
Maturity Analysis – contractual undiscounted cash flows		
Less than one year	**₱4,233,537**	₱4,357,739
One to five years	**14,900,151**	16,227,435
More than five years	**3,148,942**	5,860,714
Total undiscounted lease liabilities	**₱22,282,630**	₱26,445,888
Lease liabilities included in the statement of financial position		
Current	**₱3,022,675**	₱2,923,488
Non-current	**15,131,283**	18,109,418
Total Finance Lease Liability	**₱18,153,958**	₱21,032,906

The following relating to the finance lease liability have been recognized in profit or loss:

Years Ended December 31	**2023**	2022
Interest on lease liabilities	**₱1,383,781**	₱1,336,845
Expenses relating to short-term leases	**1,053,566**	629,720
	₱2,437,347	₱1,966,565

Presented below is the reconciliation as to rental expense and actual rent paid, interest on lease liability.

December 31, 2023		
Right-of-use asset depreciation *(Note 7)*		**₱3,353,803**
Interest on lease liabilities *(Note 20)*		**1,383,781**
Total rental paid during the year	**₱5,374,390**	
Less short-term lease charge to operating expense *(Note 20)*	**1,053,566**	**(4,320,824)**
Total *(Note 22)*		**₱416,760**
Deferred tax effect on finance lease *(₱416,760*25%)*		**₱104,190**

December 31, 2022		
Right-of-use asset depreciation *(Note 7)*		**₱2,848,767**
Interest on lease liabilities *(Note 20)*		**1,336,845**
Total rental paid during the year	**₱4,089,906**	
Less short-term lease charge to operating expense *(Note 20)*	**629,720**	**(3,460,186)**
Total *(Note 22)*		**₱725,426**
Deferred tax effect on finance lease *(₱725,426*25%)*		**₱181,356**

Note 15
Other Liabilities

December 31	**2023**	2022
Accounts payable	**₱3,290,696**	₱2,574,230
Accrued interest payable	**1,202,427**	917,944
SSS, Philhealth and Pag-ibig payable	**350,792**	270,475
Due to Philippine Deposit Insurance Corporation (PDIC)	**255,367**	220,550
Unearned income from advance rental	**175,256**	40,109
Accrued expenses	**148,949**	219,576
Withholding tax payable	**129,584**	102,155
Due to Treasurer of the Philippines - unclaimed balances	**76,265**	52,382
Redeemable preferred shares – LBP	**52,900**	52,900
Total	**₱5,682,236**	₱4,450,321

Accounts payable pertains to gross receipts tax payable, documentary stamp tax payable, SSS, Pag-ibig loan and cash card payable.

Accrued expenses represent payables to various suppliers that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period.

Note 16
Share Capital

The details of preferred and common shares are presented below:

	Shares		Amount	
December 31	**2023**	2022	**2023**	2022
Preferred Shares – ₱100 par value				
Authorized – 25,000 shares				
Common Shares – ₱100 par value				
Authorized – 975,000 shares				
Subscribed ordinary shares	**615,000**	615,000	**₱61,500,000**	₱61,500,000
Subscription receivable	**(133,273)**	(133,273)	**(13,327,300)**	(13,327,300)
Total Share Capital	**481,727**	481,727	**₱48,172,700**	₱48,172,700

Under the Philippine Corporation Code, subscribed shares are entitled to participate fully in dividends, thus, the full subscribed shares are included in Earnings per share (EPS) computation under Philippine jurisdiction.

Note 17
Interest Income

Years Ended December 31	**2023**	2022
On loans and receivables:		
Loans *(Note 5)*	**₱33,612,363**	₱30,330,831
Sales contract receivables	**1,422,240**	463,765
	35,034,603	30,794,596
On bank deposits and investment securities:		
Due from other banks *(Note 4 and 9)*	**646,021**	316,014
Tax exempt investments *(Note 6)*	**2,375,794**	1,471,563
	3,021,815	1,787,577
Total Interest Income	**₱38,056,418**	₱32,582,173

Note 18
Interest Expense

Years Ended December 31	**2023**	2022
Deposit liabilities *(Note 11)*	**₱3,847,145**	₱3,345,892
Bills payable *(Note 12)*	**2,072,719**	1,533,246
	₱5,919,864	₱4,879,138

Note 19
Other Income

This account consists of the following:

Years Ended December 31	**2023**	2022
Gain on sale of investment properties *(Note 8)*	**₱7,457,609**	₱4,952,244
Processing fees -other loan receivables	**3,443,101**	2,710,089
Recovery on charged-off asset	**1,138,850**	1,971,370
Reversal of allowance for impairment losses – ROPA *(Note 10)*	**989,726**	-
Miscellaneous income	**5,031,182**	4,585,168
	₱18,060,468	₱14,218,871

Miscellaneous income pertains to income from rental, notarial fees, penalties, certification fee, inspection fee, overages, dormant and other bank charges.

Note 20
Operating Expenses

Years Ended December 31	**2023**	2022
Compensation and employees' benefits	**₱24,114,869**	₱18,576,104
Depreciation *(Note 7 and 8)*	**6,583,502**	5,656,960
Security, clerical, messengerial and janitorial services	**2,244,888**	1,115,573
Light, power and water	**2,016,296**	1,744,287
Interest expense – finance lease *(Note 14)*	**1,383,781**	1,336,845
Rental *(Note 14)*	**1,053,566**	629,720
Fuel, oil and lubricants	**1,002,179**	866,336
Insurance *(Note 21)*	**946,606**	938,546
Taxes and licenses *(Note 29)*	**938,440**	832,320
Communications	**789,691**	732,675
Stationery and supplies	**710,635**	494,860
Repairs and maintenance	**429,523**	364,349
Travel and transportation	**427,625**	340,626
Management and other professional fees	**270,511**	295,716
Fees and commission	**195,438**	38,436
Information technology	**174,480**	241,189
Retirement benefits expense *(Note 13)*	**164,380**	156,508
Litigation	**120,944**	456,096
Fines, penalties and other charges	**88,050**	64,788
Supervisory fees	**54,108**	51,744
Membership fees and dues	**11,520**	14,500
Representation and entertainment	**11,452**	-
Donations and charitable contributions	**7,300**	-
Promotions	**2,980**	43,771
Miscellaneous	**1,005,433**	737,080
	₱44,748,197	₱35,729,029

Note 21
Details of Insurance Expenses

Years Ended December 31	**2023**	2022
Philippine Deposit Insurance Corporation	**₱483,827**	₱446,778
Others	**462,779**	491,768
	₱946,606	₱938,546

Others pertains to insurance to employee, vehicles used in the operation of the banks.

Note 22
Income Tax

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act or Republic Act (RA) No. 11534 was signed into law on March 26, 2021. The new tax rates applicable to the regular taxable income of the Bank are as follows:

<table>
<tr><td rowspan="3"></td><td colspan="4">The higher between the "Regular" or "Minimum Corporate Income Tax (MCIT)" rates</td></tr>
<tr><td colspan="2">Regular</td><td colspan="2">MCIT</td></tr>
<tr><td>Rate</td><td>Effectivity</td><td>Rate</td><td>Effectivity</td></tr>
<tr><td rowspan="2">Domestic corporations, in general</td><td rowspan="2">25%</td><td rowspan="2">July 1, 2020</td><td>1%</td><td>July 1, 2020 to June 30, 2023</td></tr>
<tr><td>2%</td><td>July 1, 2023</td></tr>
<tr><td rowspan="2">For corporations with net taxable income not exceeding Five Million Pesos (₱5,000,000) AND total assets not exceeding One Hundred Million (₱100,000,000), excluding the land on which the particular business entity's office, plant and equipment are situated</td><td rowspan="2">20%</td><td rowspan="2">July 1, 2020</td><td>1%</td><td>July 1, 2020 to June 30, 2023</td></tr>
<tr><td>2%</td><td>July 1, 2023</td></tr>
</table>

Provided further, the taxpayer's allowable deduction for interest expense shall be reduced by an amount equivalent to twenty percent (20%) of interest income subjected to final tax.

However, if the final withholding tax rate on interest income of 20% will be adjusted in the future, the interest expense reduction rate shall be adjusted accordingly.

The computations of income tax under the new rate are as follows:

December 31	**2023**	2022
Current tax:		
Normal income tax	**-**	₱215,467
Deferred tax expense (income) relating to		
origination and reversal of temporary differences	**(₱1,574,370)**	(547,818)
	(₱1,574,370)	(₱332,351)

The current tax expense for the year was derived by the following computations:

Years Ended December 31	**2023**	2022
Profit before income tax	**₱4,329,908**	₱4,912,774
Non – taxable income:		
Interest income already subjected to final tax *(Note 17)*	**(3,021,815)**	(1,787,577)
Income subjected to capital gains tax *(Note 19)*	**(7,457,609)**	(4,952,244)
Non – deductible expenses:		
Interest expense	**754,411**	432,855
Fines, penalties and other charges	**87,350**	64,788
Temporary differences:		
Provision for impairment losses *(Note 10)*	**1,118,917**	1,280,103
Reversal on allowance for impairment loss *(Note 19)*	**(989,726)**	-
Retirement benefits expense *(Notes 13)*	**164,380**	156,508
Advance rental payment	**(18,402)**	29,235
Effect of finance lease *(Note 14)*	**416,760**	725,426
(NOLCO) Taxable income	**(4,615,826)**	861,867
Tax rate	**25%**	25%
Normal Income Tax	**-**	215,467
Minimum Corporate Income Tax (MCIT)	**219,235**	165,311
Normal Income Tax or MCIT whichever is higher	**219,235**	215,467
Excess payments from prior year	**(242,630)**	-
Creditable withholding tax	**(45,000)**	(52,361)
Payments previous three quarters	**-**	(405,736)
Prepaid Income Tax	**(₱68,395)**	(₱242,630)

Minimum Corporate Income Tax is computed as follows:

Years Ended December 31	**2023**	2022
Gross receipts		
Interest income-loans and receivables *(Note 17)*	**₱35,034,603**	₱30,794,596
Other income, net of income already subjected to CGT *(Note 19)*	**9,594,732**	9,295,862
	44,629,335	40,090,458
Cost of services		
Compensation and employees' benefits *(Note 20)*	**24,114,869**	18,576,104
Interest expense, net *(Note 18)*	**5,165,453**	4,446,283
Insurance-PDIC *(Note 21)*	**483,827**	446,778
Supervisory fees *(Note 20)*	**54,108**	51,744
Fees and commission *(Note 20)*	**195,438**	38,436
	30,013,695	23,559,345
Gross Income	**14,615,640**	16,531,113
Tax rate	**1.5%**	1%
Minimum Corporate Income Tax	**₱219,235**	₱165,311

The disproportionate relationships between the profit before income tax expense and the income tax expense – current is due mainly to interest income from bank deposits which was deducted from net income before tax since this was already subjected to the final tax of 20%. Also, the portion of interest expense not allowed as a deduction and the provision for impairment losses which is a non-cash item, are added back to the profit for the year per statement of profit of loss to arrive at the taxable income for the year.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The deferred income tax expense (income) relating to origination and reversal of temporary differences is computed as follows:

Years Ended December 31	**2023**	2022
Provision for impairment losses-*net of write-off* (*₱1,118,917 x 25%) (Note 10)*	**(₱279,729)**	(₱320,026)
Reversal on allowance for impairment loss	**247,431**	
Equity Effect of Finance Lease *(Note 14)*	**(104,190)**	(181,356)
Provision for retirement benefits *(₱164,380 x 25%) (Note 13)*	**(41,095)**	(39,127)
NOLCO	**(1,153,957)**	-
Advance rental payment – tax effect	**4,600**	(7,309)
Adjustments on prior year	**(58,262)**	-
	(₱1,385,202)	(₱547,818)

Note 23
Adjustment to Surplus

Adjustments to retained earnings have been made for the years 2023 and 2022. These consist of prior period adjustments which pertains to recording of lease adjustments, BIR interest expense & compromise penalty LOA 2021, and remeasurements amounting to ₱820,679 and ₱18,412 for the year ended December 31, 2023 and 2022, respectively.

Note 24
Earnings Per Share

Basic earnings per share is computed by dividing the profit for the year by the weighted average number of common shares during the year as follows:

Years Ended December 31	**2023**	2022
Profit for the year	**₱5,715,110**	₱5,245,125
Weighted average number of common shares *(Note 16)*	**615,000**	615,000
Earnings per share	**₱9.29**	₱8.53

As of December 31, 2023, the Bank has no outstanding potentially dilutive securities, hence, basic earnings per share is equal to diluted earnings per share.

Note 25
Related Party Transactions

In the ordinary course of business, the Bank has loans, deposits and other transactions with its related parties and with certain DOSRI. The Bank's related parties include its Directors, Officers, Stockholders and Related Interests (DOSRI) and key management as describe below. None of the transactions incorporates special terms and conditions and gives or receives no guarantee. Outstanding balances are generally settled in cash. Under Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

The significant related party transactions are summarized below:

In the ordinary course of business, the Bank has loan transactions with DOSRI. The following are the information related to DOSRI:

Years Ended December 31	**2023**	2022
Total Outstanding DOSRI loans	**₱4,575,398**	₱4,305,833
Percent of DOSRI/Related Party loans to total loans	**2.60%**	3.19%
Percent of unsecured DOSRI loans to total DOSRI/Related Party loans	**0.33%**	7.10%
Percent of past – due DOSRI loans to total DOSRI/Related Party loans	**0.00%**	0.00%
Percent of non – performing DOSRI loans to total DOSRI/Related Party loans	**0.00%**	0.00%

The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank.

In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. Loans to DOSRI are secured by their respective deposits.

Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In addition, the aggregate DOSRI loans generally should not exceed the Bank's capital funds or 15% of the Bank's loan portfolio, whichever is lower.

It is also under the BSP Regulations that those loans, other credit accommodations and guarantees secured by assets considered as non-risk by the Monetary Board shall be excluded in determining the compliance with the individual and aggregate ceiling. Therefore, DOSRI loans granted by the Bank during the year are not subject to the ceiling as stated above.

The key management compensation consists of the following:

Years Ended December 31	**2023**	2022
Salaries and wages	**₱2,623,123**	₱1,841,917
Benefits	**659,407**	606,906
	₱3,282,530	₱2,448,823

Key management personnel compensations are presented as part of compensation and employees' benefits under operating expenses in the statement of profit or loss (see Note 20). It includes productive incentives and bonuses.

Note 26
Risk Management Objectives and Policies

The Bank is exposed to a variety of financial risks in performing its activities. The main types of risks to which the Bank is exposed to include market risk, credit risk, liquidity risk, operations risk and legal and regulatory risk.

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

The Bank does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages.

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board Committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

The Audit Committee is an advisory committee whose main function is to assist and act on behalf of the BOD and provides oversight of the Bank's financial reporting. It serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders.

The Corporate Governance Committee is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the BOD and its committees and executive management.

In compliance with BSP Circular 747, the Bank has revised its compliance manual to incorporate the revised compliance framework for banks. The manual is designed to guide the identification of business risks to mitigate factors that might be detrimental to the Bank's business model and its ability to generate returns from operations.

These are summarized below:

Market Risk Analysis
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities. Most of the Bank's transactions are carried out in Philippine currency, its functional currency. It has limited or no exposures to currency exchange rates since it has no transactions involving foreign currencies. The Bank does not actively engage in the trading of financial assets nor does it write options.

It likewise has little exposure to interest rate risk as its loans and receivables and deposit liabilities have fixed interest rates. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting period date.

Credit Risk Analysis
The Bank is mostly exposed to credit risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position. Credit risk therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the carrying amount of the financial assets. The Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit. The Bank manages the level of credit risk by actively monitoring all its receivables to avoid significant delinquency.

The Bank's financial assets are composed of the following:

December 31, 2023	*Neither Past Due nor Impaired*	*Past Due and Unimpaired*	***Total***
Due from other banks and BSP *(Note 4)*	₱97,779,365	-	**₱97,779,365**
Loans receivable- gross *(Note 5)*	160,563,266	₱17,352,480	**177,915,746**
Sales contract receivables *(Note 5)*	4,816,314	-	**4,816,314**
	₱263,158,945	₱17,352,480	**₱280,511,426**
	93.81%	6.19%	**100%**

December 31, 2022	*Neither Past Due nor Impaired*	*Past Due and Unimpaired*	***Total***
Due from other banks and BSP *(Note 4)*	₱70,304,576	-	**₱70,304,576**
Loans receivable- gross *(Note 5)*	120,955,695	₱13,957,886	**134,913,581**
Sales contract receivables *(Note 5)*	5,274,572	-	**5,274,572**
	₱196,534,843	₱13,957,886	**₱210,492,729**
	93.37%	6.63%	**100%**

Liquidity Risk Analysis

The Bank is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligations as they become due without incurring unacceptable losses or costs. The Bank's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs, and c) to be able to access funding when needed at the least possible cost. The Bank manages its liquidity by carefully monitoring its scheduled debt servicing payments for long-term financial liabilities as well as its cash flows due on its day-to-day business.

The maturity profile of the Bank's financial liabilities are as follows:

December 31, 2023	*Due in One Year*	*Due Over One year*	***Total***
Time deposits *(Note 11)*	₱75,808,184	₱10,000,000	**₱85,808,184**
Bills payable *(Note 12)*	36,737,092	11,747,190	**48,484,282**
	₱112,545,276	₱21,747,190	**₱134,292,466**
	83.81%	16.19%	**100.00%**

December 31, 2022	*Due in One Year*	*Due Over One year*	***Total***
Time deposits *(Note 11)*	₱60,024,521	₱10,500,000	**₱70,524,521**
Bills payable *(Note 12)*	34,673,996	6,943,946	**41,617,942**
	₱94,698,517	₱17,443,946	**₱112,142,463**
	84.44%	15.56%	**100%**

Maturity Analysis of Assets and Liabilities

December 31, 2023	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash	₱114,688,376	-	**₱114,688,376**
Loans and receivables – gross	54,303,244	₱123,612,503	**177,915,747**
Financial asset measured at amortized cost	61,718,338	26,000,840	**87,719,178**
Nonfinancial Assets			
Bank premises, furniture and equipment	-	25,116,249	**25,116,249**
Investment properties	-	7,515,130	**7,515,130**
Other assets	1,003,140	7,640,328	**8,643,468**
Total Assets	₱231,713,098	₱189,885,050	**₱421,598,148**
Financial Liabilities			
Deposit liabilities	₱273,198,094	-	**₱273,198,094**
Bills payable	36,737,092	₱11,747,190	**48,484,282**
Trade and other payables	1,202,427	3,744,485	**4,946,912**
Finance lease liability	3,022,676	15,131,282	**18,153,958**
Retirement benefits obligation	-	1,478,206	**1,478,206**
Nonfinancial Liabilities			
Due to government	735,324	-	**735,324**
Total Liabilities	₱314,895,613	₱32,101,163	**₱346,996,776**

December 31, 2022	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash	₱79,649,728	-	**₱79,649,728**
Loans and receivables – gross	96,522,692	₱38,390,889	**134,913,581**
Financial asset measured at amortized cost	59,170,526	21,979,394	**81,149,920**
Nonfinancial Assets			
Bank premises, furniture and equipment	-	27,691,283	**27,691,283**
Investment properties	-	8,436,817	**8,436,817**
Other assets	709,902	5,737,011	**6,446,913**
Total Assets	**₱236,052,848**	**₱102,235,394**	**₱338,288,242**
Financial Liabilities			
Deposit liabilities	₱191,441,878	₱10,500,000	**₱201,941,878**
Bills payable	34,673,996	6,943,946	**41,617,942**
Trade and other payables	2,833,914	917,944	**3,751,858**
Finance lease liability	2,923,488	18,109,418	**21,032,906**
Retirement benefits obligation	-	1,313,826	**1,313,826**
Nonfinancial Liabilities			
Due to government	698,462	-	**698,462**
Total Liabilities	**₱232,571,738**	**₱37,785,134**	**₱270,356,872**

Note 27
Capital Management Objectives, Policies and Procedures

The Bank manages its capital to ensure that it has the ability to continue as a going concern while maximizing the return to shareholders. The Bank's Board of Directors reviews regularly its capital structure on the basis of the carrying amount of equity, less cash and cash equivalents, as presented on the face of the statement of financial condition. As a part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital.

Regulatory Capital
The lead regulator of the Bank, the BSP, 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. Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets.
The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding: (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI); (c) deferred tax asset or liability; (d) goodwill; (e) sinking fund for redemption of redeemable preferred shares; and (f) other regulatory deductions.

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

The regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following: (a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies; (b) investments in debt capital instruments of unconsolidated subsidiary banks; (c) investments in equity of subsidiary insurance companies and non-financial allied undertakings; (d) reciprocal investments in equity of other banks/enterprises; and (e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of: (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or, (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The Bank's policy is to maintain a strong capital base as to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 5% and Tier 1 capital ratio of 6%. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Section 127, are shown as follows.

December 31	**2023**	2022
Tier 1 capital:		
CET1 capital	**₱63,979,373**	₱61,660,159
Less required deductions	**-**	-
Total Tier 1 Capital	**63,979,373**	61,660,159
Total Tier 2 Capital	**1,455,692**	1,036,515
Total qualifying capital	**₱65,435,065**	₱62,696,674
Risk weighted assets	**₱347,120,848**	₱237,777,998
Tier 1 ratio	**18.43%**	25.93%
CET1 ratio	**18.43%**	25.93%
Capital adequacy ratio	**18.85%**	22.98%

The Bank's reported capital as at December 31, 2023 and 2022 are summarized as follows:

December 31	**2023**	2022
Total shareholders' equity	**₱69,473,559**	₱64,389,592
Add cash	**114,688,376**	79,649,728
Capital	**₱184,161,935**	₱144,039,320
Total shareholders' equity	**₱69,473,559**	₱64,389,592
Borrowings (total liabilities)	**346,996,776**	270,356,872
Overall financing	**₱416,470,335**	₱334,746,465
Capital-to-overall Financing Rate	**44.22%**	43.03%

Note 28
Reclassification

Certain amount and figures as of December 31,2022 financial statements had been reclassified to conform to the presentation of the Bank's financial statements for the period ended December 31, 2023.

Note 29
Supplementary Information Required by the Bureau of Internal Revenue

Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following type of taxes.

a. Gross receipt tax

   In lieu of the value-added tax, the Bank is subject to the gross receipts tax (GRT) imposed on all Banks and non-Bank financial intermediaries pursuant to Section 121.2 of the Philippine Tax Code. For the year ended December 31, 2023 and 2022, the Bank's GRT expenses amounted to ₱231,431 and ₱291,103 which is presented as part of taxes and licenses under operating expenses.

b. Taxes on importation

The Bank does not have any customs duties and tariff fees in 2023 since it does not have any importation during the year.

c. Final taxes withheld on Interest paid on deposits

The bank withheld and remitted final tax on interest paid on deposits amounting to ₱657,308 and ₱525,556 for the years ended December 31, 2023 and 2022, respectively.

d. Excise tax

The Bank did not have transactions in 2023 which are subject to excise tax.

e. Documentary stamp tax

The Bank remitted documentary stamp tax amounting to ₱586,136 and ₱457,444 for their loan releases and time deposits for the period ended December 31, 2023 and 2022, all of which was shouldered and passed on to the other party.

f. Taxes and licenses *(Note 20)*

Years Ended December 31	**2023**	2022
Business permit	**₱328,858**	₱357,954
Gross receipts tax	**231,431**	291,103
Documentary stamp tax	**171,304**	155,548
BSP processing fees	**177,341**	-
Real property tax	**22,412**	-
Others	**7,094**	27,715
	₱938,440	₱832,320

g. Withholding taxes

Withholding taxes paid and accrued and/or withheld for the years ended December 31, 2023 consist of:

Year Ended December 31, 2023	**Tax Base**	**Amount paid**
Rental	**₱4,988,785**	**₱249,439**
Salaries and wages	**2,572,719**	**117,203**
Professional fee	**146,111**	**14,611**
Security services	**482,641**	**9,653**
Purchase of services	**4,401,641**	**88,033**
Purchase of goods	**3,707,205**	**37,072**
	₱16,299,102	**₱516,011**

h. Deficiency tax assessments and tax cases

As of December 31, 2023, the Bank does not have any tax cases outstanding or pending in courts or bodies outside of the BIR.

Revenue Regulations (RR) No. 34-2020

The Bank is not covered by the requirements and procedures for related party transactions under Section 2 of RR No. 34-2020.

Note 30
Supplementary Information Required by the BSP

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

a. Selected Financial Performance Indicators

Years Ended December 31	**2023**	2022
Return on Average Equity	**8.82%**	8.63%
Return on Average Assets	**1.57%**	1.65%
Net Interest Margin	**10.52%**	11.06%
Capital-to-Risk Assets	**36.77%**	22.98%

Minimum Liquidity Ratio (MLR)

To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities. MLR is computed as follows:

December 31	**2023**	2022
Stock of liquid asset	**₱114,688,376**	₱79,649,728
Total Qualifying Liabilities	**₱346,996,776**	₱270,356,872
Minimum Liquidity Ratio (MLR)	**33.05%**	29.46%

b. Description of capital instruments issued

	Shares		Amount	
December 31	**2023**	2022	**2023**	2022
Preferred Shares – ₱100 par				
Authorized – 25,000 shares				
Common Shares – ₱100 par				
Authorized – 975,000 shares				
Subscribed ordinary shares	**615,000**	615,000	**₱61,500,000**	₱61,500,000
Subscription receivable	**(133,273)**	(133,273)	**(13,327,300)**	(13,327,300)
Total Share Capital	**481,727**	481,727	**₱48,172,700**	₱48,172,700

c. Significant Credit Exposures for Loans

The breakdown of this account classified as to concentration of credit is as follows:

December 31	**2023**	**%**	2022	%
Agriculture, hunting and forestry	**₱42,002,791**	**23.61**	₱38,577,466	28.59
Household consumption	**40,894,580**	**22.99**	-	-
Real estate, renting and business activities	**26,860,774**	**15.10**	39,718,657	29.44
Transportation, storage and communication	**1,752,574**	**0.98**	26,393,562	19.56
Manufacturing	**14,755,166**	**8.29**	10,000,000	7.41
Electricity, gas, steam and A/C supply	**9,917,183**	**5.57**	-	-
Accommodation and food service activities	**6,191,797**	**3.48**	-	-
Construction	**3,684,139**	**2.07**	-	-
Other community, social and personal services			5,259,824	3.90
Wholesale and retail trade, repair of MV	**29,146,180**	**16.38**	4,304,733	3.19
Education	**1,442,241**	**0.81**	502,176	0.37
Other service activities	**672,167**	**0.38**	-	-
Human health and social work activities	**386,020**	**0.22**	-	-
Mining and quarrying	**210,134**	**0.12**	-	-
Others			10,157,163	7.54
	₱177,915,746	**100.00**	₱134,913,581	100.00

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

Credit Status of Loans

December 31, 2023	*Current*	*Past Due Performing Loans*	*Past Due Non-Performing Loans*	*Litigation*	***Total***
Agricultural loans	₱33,922,042	₱634,998	₱2,925,987	₱348,278	**₱37,831,305**
Agrarian loan	27,133,711	1,983,404	773,620	-	**29,890,735**
Bills discounted – Commercial loans	-	-	-	-	**-**
Bills discounted – Other loans	-	-	-	-	**-**
Development incentive loans	-	-	-	-	**-**
Time commercial loans	52,318,454	-	3,389,926	1,520,337	**57,228,717**
Time industrial loans	10,000,000	-	-	-	**10,000,000**
Time other loans	37,189,059	1,934,734	3,841,196	-	**42,964,989**
Total	₱160,563,266	₱4,553,136	₱10,930,729	₱1,868,615	**₱177,915,746**

December 31, 2022	*Current*	*Past Due Performing Loans*	*Past Due Non-Performing Loans*	*Litigation*	*Write-off*	***Total***
Agricultural loans	₱26,918,076	-	856,949	-	698	**₱27,775,723**
Agrarian loan	20,415,199	1,495,625	67,898	-	142	**21,978,864**
Bills discounted – Commercial loans	-	-	-	-	-	**-**
Bills discounted – Other loans	-	-	-	-	-	**-**
Development incentive loans	-	-	-	-	-	**-**
Time commercial loans	43,238,833	1,038,119	1,604,241	922,765	716	**46,804,674**
Time industrial loans	10,000,000	-	-	-	-	**10,000,000**
Time other loans	20,383,586	5,795,650	2,174,406	-	678	**28,354,320**
Total	**₱120,955,694**	**₱8,329,394**	**₱4,703,494**	**₱922,765**	**₱2,234**	**₱134,913,581**
	89.65%	**6.17%**	**3.49%**	**0.68%**	**0.00%**	**100%**

d. Analysis of Loan Portfolio as to Type of Security

December 31	**2023**	**%**	2022	%
Secured:				
Real estate mortgage	**₱89,161,710**	**50.12**	₱70,781,124	52.46
Chattel mortgage	**825,866**	**0.46**	2,133,776	1.58
Hold out deposit / Non risk asset	**4,023,671**	**2.26**	4,079,029	3.02
Total	**94,011,247**	**52.84**	76,993,929	57.07
Unsecured	**83,902,268**	**47.16**	57,919,652	42.93
Total	**₱177,913,515**	**100.00**	₱134,913,581	100.00

e. Information on Related Party Loans

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI).

Under the Bank's policy, these loans and other transactions are made subsidiary on the items as with other individuals and businesses of comparable risks.

DOSRI Loans

The individual ceiling for credit accommodations of a bank to each of its directors, officers and related interests shall be equivalent to his outstanding deposits and book value of its paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's directors and officers shall not exceed 30% of his total credit accommodations.

The aggregate ceiling for credit accommodations, whether direct or indirect, to directors and officers of the bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

The following are the information related to DOSRI:

Years Ended December 31	**2023**	2022
Total Outstanding DOSRI loans	**₱4,575,398**	₱4,305,833
Percent of DOSRI/Related Party loans to total loans	**2.6%**	3.19%
Percent of unsecured DOSRI loans to total DOSRI/Related Party loans	**0.33%**	7.10%
Percent of past – due DOSRI loans to total DOSRI/Related Party loans	**0.00%**	0.00%
Percent of non – performing DOSRI loans to total DOSRI/Related Party loans	**0.00%**	0.00%

f. Secured Liabilities and Assets Pledged as Security

As of December 31,2023, bills payable amounting to ₱48,484,282 are secured by promissory notes of the Bank's borrowers. This loan is discounted at 85% of the face value of the outstanding balance of the rediscounted promissory notes at the time of availment and bears interest at the creditor's prevailing rate.

i. Contingencies and Commitments Arising from Off-balance Sheet Items

As of December 31,2023, and 2022, the Bank has no contingencies and commitments arising from off-balance sheet items as described in Circular 1074.