RBSMI
RURAL BANK OF SAN MATEO (ISABELA), INC.

2022 ANNUAL REPORT

San Mateo, Isabela

rbsanmateoisa@rbap.org

(078) 232 - 0815
(078) 232 - 0817

rbsanmateoisa.com

1. Corporate Policy

Rural Bank of San Mateo (Isabela), Inc. continues to be the most trusted bank in the locality and the neighboring towns of San Mateo and in the Region. For the past 60 years, the bank's commitment to the community has always been the best service to its clientele. We serve because we care.

Vision Statement

" To be a strong, stable, and trusted Rural Bank in the Cagayan Valley Region".

Mission Statement

" To be a partner in the growth and development of agricultural and other rural businesses – **KABALIKAT SA PAG-UNLAD**".

Core values

Integrity
Professionalism
Commitment to excellence and innovation
Partnership

THE BANK'S BRAND AND BUSINESS MODEL

"Ang Inyong Kabalikat sa Pag-Unlad"

Rural Bank of San Mateo (Isabela), Inc. is focused on providing high quality and responsive financial products to its clients within the Cagayan Valley Region and Cordillera Administrative Region. We contribute to the local economy by providing credit facilities to constituents.

Deposit-wise, we offer various deposit products according to the needs of its clients, both young and old. The Bank also facilitates real-time transactions through partnership with a digital technology platform.

THE CHAIRPERSON'S REPORT

Fellow RBSMI stockholders, members of the Board of Directors, Ladies and Gentlemen, it is my honor and privilege to stand before you today and give you this report on the 60th anniversary year of our esteemed bank.

We were founded in 1962 and celebrated this milestone in June last year. Thank you to all our valued customers, employees, shareholders and partners, who have been a part of our journey and have made this day possible.

It was 60 years ago, when a group of visionary individuals came together with a shared dream of creating a financial institution that would empower people, help them achieve their financial goals, and play a pivotal role in the development of our rural community. Today, I am proud to say that our bank has fulfilled that vision and has become a trusted name in San Mateo and beyond, known for its innovative products, exceptional customer service, and unwavering commitment to the community.

Over the years, our bank has weathered many challenges and has adapted to changing times and technology, but what has remained unchanged is our commitment to our customers and our principles of integrity, professionalism, excellence, innovation and partnership. We have helped farmers thrive, businesses grow, provided families with the means to purchase their dream homes, and helped individuals reach their financial goals.

As we look to the future, we are more determined than ever to continue building on our success. In the past year, we have restructured the organization, and are investing in new technology, new processes and new talent. I am excited to keep expending all our energies into ensuring that RBSMI will continue to play a leading role in the rural financial sector and will continue to innovate, evolve and grow. Our vision for the future is clear - to continue delivering exceptional customer service, to drive economic growth and to empower people to achieve their financial aspirations.

In closing, I would like to once again express my gratitude to all of you for your unwavering support and commitment to our bank. Let us celebrate this day, with a sense of pride and accomplishment, and look forward to continuing to serve our community for many years to come.
Thank you.

PATRICIA ROSARIO MARIA G. REMIJAN
Chairperson of the Board

PRESIDENT'S REPORT

During and after the pandemic has been really challenging to all of us physically, emotionally and financially. 2022 is a year for recovery yet another challenge came, the increase in the price of gasoline which again affected all of us and our economy. Yet through all these challenges, our RBSMI withstand it all. Truly God was with us. One of his greatest blessings happened on Feb. 02, 2022 when BSP conducted its offsite examination using the new compliance rating system – the Supervisory Assessment Framework (SAFr), which consists only of four-point system that outlines between satisfactory and unsatisfactory ratings. I commend the hard work of everyone from the BOD, to the Oversight, Department Heads and all employees. After waiting for several months, the Result of Examination (ROE) was released on June 8, 2022.

Another milestone happened on June 10, 2022 when RBSMI celebrated its 60th Founding Anniversary. Included in the program is the recognition of our valued clients both depositors and borrowers who had been with us for decades.Truly, blessings come in many ways. August 24,2022 when BSP issued Circular 1151 issued "Amendments to the new Capitalization of RB's. Only 40% of the 358 Rurals Bank were compliant and we are one of them.

Our target goal for Net Income after tax for 2022 is P11 million however, our actual accomplishment is only P 9 million. One of the main reasons for not achieving this goal is the increase in our provision for credit losses, an expense recorded only in the book but no actual cash outflow was incurred. Without the said provision, our Net Income after tax would have been P13 million. As a result, the Return on Assets is only .85%, while the Return on Equity is 6.19%. But some of the financial indicators has posted a favorable result like the Cost of Fund of .87% only. This rate indicates that we incurred minimal amount in utilizing our funds from our depositors. The Bank's Liquidity Ratio of 45.60% is also satisfactory. This implies that we have the capacity to meet all our maturing obligations. And lastly, we are delighted to achieve a Capital Adequacy Ratio of 16.30% which is 6.30% higher than the required BSP threshold rate of only 10%. The CAR is one of the parameters set by the BSP in computing dividends to be declared.

The target net income may not be realized but we are still grateful to excel in other areas considering that the economy is still recovering from the long-term effect of the pandemic. Nevertheless, we are determined to improve more our initiatives especially in the lending operations as the predominant source of our revenue

We are grateful to our shareholders and Board of Directors for their unwavering support and the men and women working on the frontlines and backroom for their trust that we can defy all odds while putting a winning strategy in place and believing that sustainability is at the core of what we are doing. Thank you to all our customers not only for banking with us but believing us that we can bring the Bank to even greater heights and to the other government and private financial institutions, who have been very supportive of our efforts to keep our relevance to the community we are serving. Foremost, we thank the Lord for his Guiding Hands.

"If you can't fly, then run; if you can't run then walk; if you can't walk then crawl, but whatever you do, you have to keep moving forward" – Martin Luther King Jr.

Again, maraming salamat po!

KATRINA MARIE P. PILAPIL
President-CEO

2. Financial Summary

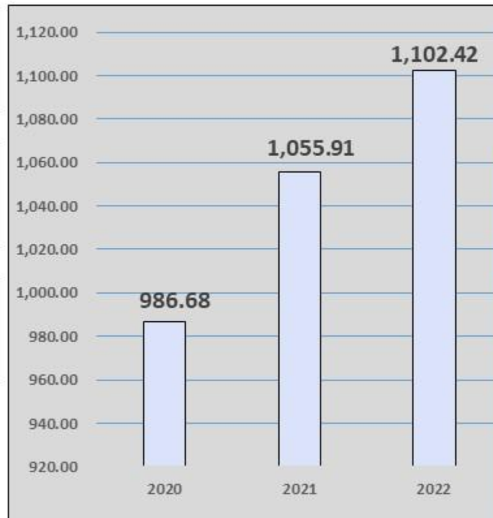
	2022	2021
Profitability		
Net Interest Income	73,956,349	70,090,467
Total Non-Interest Income	11,388,696	19,197,516
Total Non-Interest Expense	56,032,000	54,757,462
Pre-Provision profit	29,313,045	34,530,521
Provision for credit losses	14,061,369	17,752,036
Net Income	11,438,757	11,092,751
Selected Balance Sheet data		
Liquid Assets	416,040,965	406,612,894
Gross Loans	661,059,969	612,660,624
Total Assets	1,102,418,829	1,055,913,334
Deposits	914,718,852	880,884,087
Total equity	156,959,436	146,380,880
Selected Ratios		
Return on Equity	7.54%	7.92%
Return on Assets	1.06%	1.09%
CAR	16.49%	15.74%

FINANCIAL HIGHLIGHTS

TOTAL ASSETS

2022	1,102,418,829
2021	1,055,913,334
2020	986,677,300

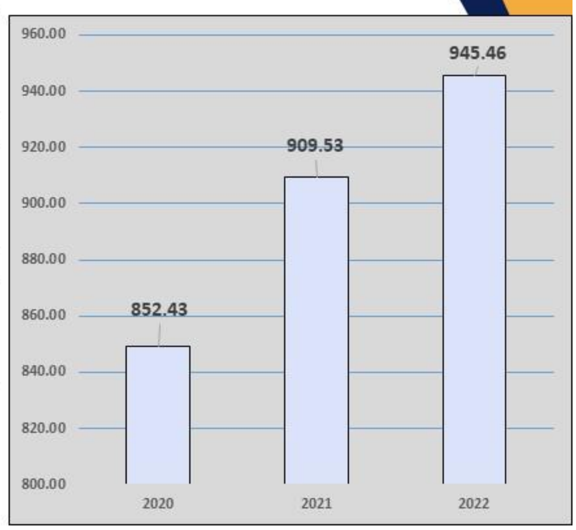
The increase in Total Assets is attributed to the increase in Loan Portfolio. Excess funds not utilized for lending operations was deposited to various depository Banks thereby increasing the Due from Banks balance.



TOTAL LIABILITIES

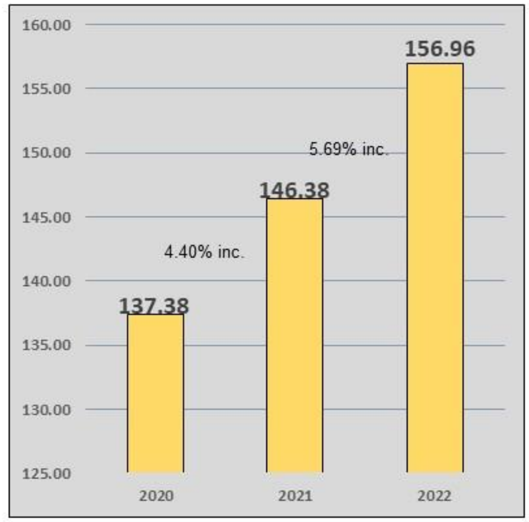
2022	945,459,393
2021	909,532,454
2020	852,425,799

The continuous increase in Total Liabilities is attributed to the increase in deposit liabilities, the biggest source of our funds.



TOTAL EQUITY

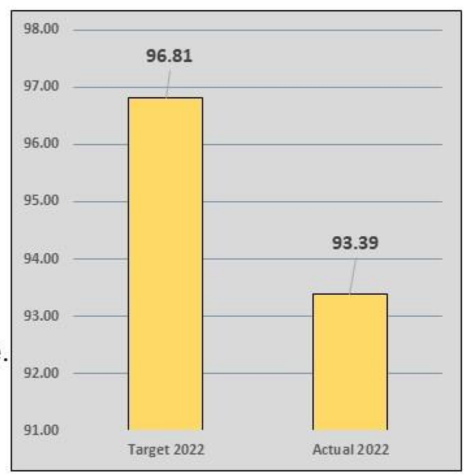
2022	156,959,436
2021	146,380,880
2020	137,384,851.53



INCOME

Target 2022	96,805,427.79
Actual 2022	93,393,835.75

Actual Income for this Year 2022 of 93.39m is lower than the target of 96.81m since we also missed our target Loan Portfolio, the primary source of our revenue. Accomplishment Rate is 96.48%

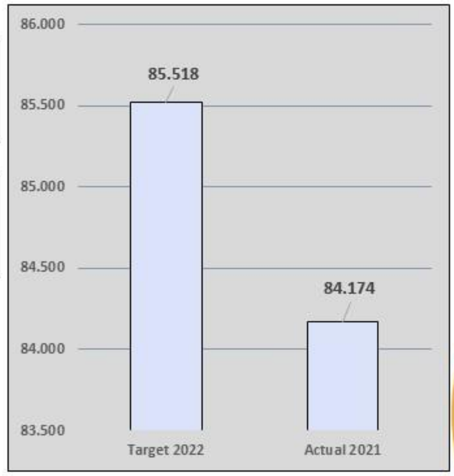


EXPENSES

Target 2022 — **85,517,824.01**

Actual 2022 — **84,174,163.18**

Utilization Rate = 98.43%



NET INCOME

Target 2022 — **11,287,603.78**

Actual 2022 — **11,438,757**

Accomplishment Rate = 101.34%

3. Financial Condition and Results of Operations

a. Review of the bank's operations and result of operations for the financial year including details and explanations for any significant change during the year

Our Financial Performance for 2022 are the following:

Our Loan Portfolio, being the biggest asset of the Bank, has posted a 7.68% increase from 622 million in 2021 to 670 million in 2022 though we failed to meet our goal this will inspire us to do better this year and for us to change our Marketing Strategy.

Our deposit taking as of 2022 is also commendable. We are grateful to our depositors that despite the low interest rates, they continue to entrust their funds with us. Our deposit level also posted a 3.72% increase from 878 million in 2021 to 914 million in 2022 and even surpassed our target of 863 million. One of our Plan is to will implement the proposal to transfer the payment of Documentary Stamp Tax to our depositors. However, it was deferred for this year 2023 to give us enough time to evaluate its this will have a big impact on our deposit level.

The Bank's total equity also has an increase of 5.69% from 143 million in 2021 to 156 million in 2022. The primary source of increase was the generated revenue on previous years.

The 5.90% increase in the Net Interest Income from 70 million in 2021 to 73.9 million in 2022 is something to reckon as improvement in our performance. But since we have missed our target Loan portfolio, we did not meet our target Net Interest Income is 86 million.

The non-interest income of 11 million in 2022 is lower than previous year's balance of 19 million but still higher than our target by 2.4 million. The primary reason for the decrease from previous year is attributed to the disposal of only 1 ROPA / foreclosed property account that generated a minimal revenue. While the reason for higher accomplishment against the target is due to the higher revenue recorded in Recovery on charged-off assets for the reversal of allowance for credit losses.

Non-interest expense has an increase of 2.80% from previous years balance of 54.7 million to 56 million in 2022. The increase is attributed to the following:

- 13% increase in Gross receipt Tax as a result of increase in Interest Income
- 66% increase in Litigation expenses for the cost incurred to the biggest ROPA / Foreclosed Property in Echague, Isabela.
- 93% increase on other expenses due to the cost incurred during the 60th Anniversary

Although there is an increase in expenses from previous year's balance, the actual cost utilization for 2022 of 84 million is still lower than the target cost of 85 million.

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

This year is a remarkable year for RBSMI as we celebrate the 60th founding anniversary of the Bank. The highlight of the celebration was set on June 10, 2022. The Bank conducted a recognition program for its valued clients, borrowers and depositors, and several raffle prizes and give aways. Also, the Bank conducted a Jingle competition with the theme "RBSMI Ika-60 taong pagpupugay. Ang inyong kabalikat sa Pag-unlad." and the winner will be the official jingle of RBSMI.

The Bank's Risk Management Unit strive hard to enhance the Bank's Risk Management System as we adopt to the updated standard of Risk-based lending approaches as another milestone to the Bank. This year, we commit ourselves to a proactive risk management approach. And to broaden the Banks capacity by establishing Information Technology Risk Management Framework and Sustainable Finance Framework in the guidance of BSP Circulars and Memoranda.

The Bank's Sustainable Finance Framework seek to achieve strategic resilience by incorporating sustainability in the way we do business. The Bank anchors its sustainable development strategy to the 17 United Nations Sustainable Development Goals ("SDGs"). Providing a frame of reference for our contributions to sustainable development, while managing risks and opportunities of a changing world.

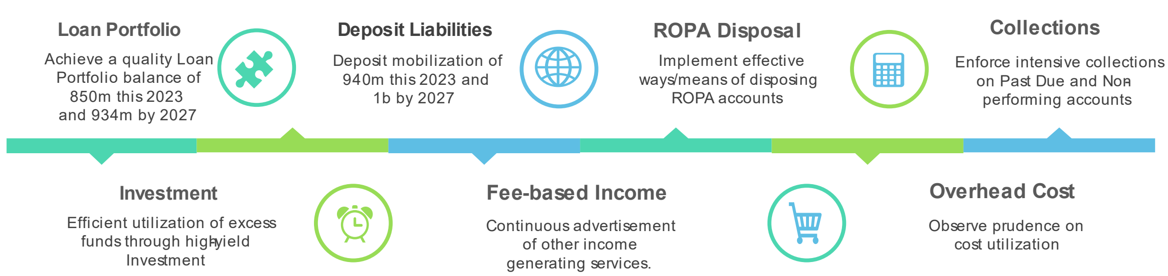
Through extensive effort and dedication, we are glad to accomplish our KRA Goals including other related task as follows:

- Business Continuity Plan Testing;
- Precise monitoring and reporting of Agri-Agra & MSME Compliance;
- Precise monitoring and reporting of Single Borrower's Limit (SBL), Related Party Transactions (RPT) Inter-dependent Borrowers and Large Exposure Loans;
- Precise monitoring and reporting of Credit Bank's Risk Appetite
- Board Reporting of Major Credit Risk Findings
- Adequate Loan Loss Provisioning in accordance to BSP Appendix 15;
- Development of Information Technology Risk Management Manual;
- Development of Sustainable Finance Framework;
- Maintenance of the Bank's Risk Control and Self-Assessment;
- System-based risk event reporting and recording;
- Incident Report database recording;
- Qualitative and quantitative review of Bank's loan portfolio; and
- Diligent participation in BSP Credit Risk Database project in partnership with Japan International Cooperation Agency (BSP counterpart in Japan)

c. Major strategic initiatives of the bank

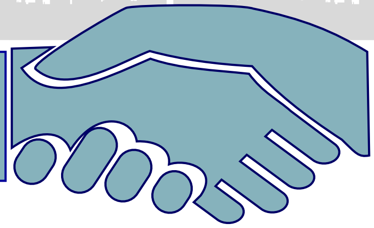
Strategic Goals and Supporting Goals

Supporting Goal 1: Increase Profitability



Supporting Goal 2: Reinforce Capital Adequacy

Capital Adequacy Ratio



Capital Build-up Plan

Achieve a CAR of more than 15% this 2023 and 18% by 2027

- Constant monitoring of Other Risk Assets especially Non-performing loan accounts
- Continuous advertisement of low risk weighted assets such as, back to back loan (0%), Pabahay Loan -1st mortgage (50%) and Commercial Loan (50%)

Increase Capital to 250m until 2027

Year	Action Plan
2023-2026	Subscribe and pay another 25% of the 500,000.00 additional authorized shares
2023-2027	Declare Stock dividends corresponding to 50% of the 500,000.00 additional authorized shares
2027	Request for another 50,000,000.00 increase in authorized capital

Suppoting Goal 3: Strengthen Risk Management

Credit Risk

To effectively implement the Credit Risk Management Framework

Compliance Risk

To execute a strong compliance management framework

Operational Risk

To mitigate risk arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information.

Strategic Risk

To properly identify, implement and monitor Strategic goals and Objectives

Liquidity Risk

To actively monitor and control liquidity risk exposures

IT Risk

To clearly establish and implement IT Risk Management Framework

Supporting Goal 4: Transform Bank Organization

INTERNAL CONTROL PROCESSES
Strengthen Internal Control Processes

PERFORMANCE MONITORING
Enhance systems to monitor plans and strategies against actual performance

NURTURE IN -HOUSE TALENT
Effectively nurture talents to conduct in-house trainings and seminars

Supporting Goal 5: Enhance Bank Image

Quality Management Program

Establish Quality Management Program

Utilization of Social Media Platforms

Effectively use social media platforms

Corporate Social Responsibility Program

Build positive image through relevant Corporate Social Responsibility Programs

Supporting Goal 6: Strengthen Information Technology

MOBILE APP

To efficiently monitor the implementation of Mobile App

- Pilot run on the 3rd quarter of 2024

IT DRIVEN SYSTEM

To transform existing procedures into IT driven processes

- Identify the existing procedures to be prioritized
- Constant communication with the service provider

FUND MANAGEMENT

Assumption 2023

Monitor Investment balance of not exceeding 10% of Deposit Liabilities

Maintain short-term Investment of not lower than 60% of the Total Investment balance.

Projection 2024 - 2027

3% of the yearly Deposit Liability increment shall be invested to high-yield Retail Treasury Bonds.

Maintain a Due from Banks balance every year of above 200 million but not to exceed 40% of the Deposit Liability balance

OTHERS

FEE BASED INCOME

- 10% yearly increase in fee -based income
- Advertise and cross -sell other financial services offered thru service alliances.

OVERHEAD COST

- Strictly implement expense control by staying within the budgeted cost unless a compensating business is ensured.
- Only budgeted costs are allowed to be incurred, otherwise a higher Management/BOD approval must be secured.

Some of the strategies that contributed to the increase of loan portfolio are the following:

1. Rewards/freebies were given to our new loan borrowers and loyal borrowers as a compliment in availing our loan product.
2. Referral Incentive Policy was adopted and was implemented, borrowers, employees, officers and directors of the bank enjoyed the benefit.
3. Continuous posting of advertisement on social media (FB page)
4. Re-availment of clean up payment.
5. Extension of Regulatory Relief on Single Borrowers Limit (SBL set by BSP from 25% to 30% from Capital

d. Challenges, opportunities, and responses during the year

The commencement of BSP examination last February 2022 is one of the challenging tasks we encountered since it is an off-site examination and the new SAFr rating will be used to rate us. We have exerted our efforts to prepare and provide the necessary requirements which contributed to the success of this examination and no major exceptions were noted within our area of responsibility.

Training is also an important aspect of our development. As of this date, we don't have a designated unit who will handle the in-house trainings of our employees. The Controllership Department however has extended its support to the Marketing Department specifically the accomplishment of loan loss provisioning by conducting trainings during their departmental meetings.

Our accomplishments are the manifestation of our utmost dedication to provide quality output. Rest assured that we will strive to deliver the best performance and continue serving the bank the best way we can.

Accounting plays a significant role in every business entity and considered as one of the essential parts in running the business. Its main function is to keep a systematic record of the organization's financial information which will be used by the stakeholders and regulators in formulating business decisions. This challenging task is entrusted in the Controllership Department.

Every banking day, the Branch Accountants and the Head of Central Accounting, are striving and working hard to achieve our goal of accurate recording and posting of transactions. Their daily tasks include thorough checking of supporting documents against GL and SL transactions, tracing of unreconciled items and making adjusting entries. The Bank's core banking system however, has provided enormous support in making this challenging task to be accomplished accordingly.

4. Risk Management Framework Adopted

a. Overall risk management culture and philosophy

In compliance with BSP Circular 971 on Risk Governance issued on August 22, 2017, the bank sets forth the creation of the Risk Management Unit with the following functions:

1) Overseeing the risk-taking activities across the bank, as well as evaluating whether these remain consistent with the bank's risk-appetite and strategic directions;
2) Responsible for identifying, measuring, monitoring and reporting risk on a bank-wide basis as part of the second line of defense;
3) Maintains the bank's overall credit risk exposure within the parameters set by the Board;
4) Assess adequacy of loan loss provisioning and credit review function;
5) Risk management policy development; and
6) Directly report to the Board of Directors on the different risk exposures of the bank.

CREDIT RISK

The Bank continues its risk-based lending mechanism in order to strengthen credit risk. The Bank continually adheres to the concepts of separate risk rating on the borrower (Borrower's Risk Rating) and facility (Facility Risk Rating). Loan pricing methodology has been changed also to a more complex and detailed formula integrating the cost of funds, the credit risk percentage plus the spread set by the board. Loan limits has been regularly monitored and reported to the Board of Directors also. The Bank also adopted an internal SBL, lower than the regulatory limit, as a prudent process. To minimize the impact of the pandemic, the Bank applied for the staggered booking of allowance for credit losses. Credit Stress Testings were regularly performed.

LIQUIDITY RISK

Liquidity position and gap reporting policy were put into place to mitigate liquidity risk arising from mismatches in the timing at which assets and liabilities mature. This is made possible through the combined effort of the Controllership Department who is tasked mainly of day-to-day funds management together with the Credit Administration Department, Marketing Department and Branch Managers. Liquidity Stress Testings were conducted on a weekly basis during the onset of the pandemic to closely monitor the potential impacts of massive withdrawals. The Bank's Contingency Funding Plan was likewise timely reviewed and enhanced.

OPERATIONS RISK

The adoption of the RBSOFTECH System made it probable for the bank to monitor all reportable incidents on a bank-wide scale. Incident reports can now be entered into the system as the bank's database of such reports. Business Continuity Plan testing was consistently implemented.

b. Risk appetite and strategy

RISK APPETITE STATEMENT

Rural Bank of San Mateo (Isabela), Inc. having mandated to make needed credit available and readily accessible in the rural areas by virtue of Rural Banking Act (R.A. 7353) shall provide loans primarily for countryside development and as also embodied by the institution's mission and vision statement.

The bank shall have high risk appetite for credit facilities primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families owning or cultivating land dedicated to agricultural production as well as those in the agri-business sector.

RISK APPETITE – INDUSTRY CLASS

The bank has high risk tolerance to growing and high performing industries and low risk tolerance to industries with adverse historical background.

RISK APPETITE – ECONOMICALLY INTERDEPENDENT BORROWERS

The bank's limit to economically interdependent borrowers is consistent with the internal Single Borrower's Limit of Twenty-Three (23%) of the qualifying capital of the Bank.

RISK APPETITE – OUT-OF-TERRITORY BORROWERS

The bank is not aggressive in extending credit facilities to out-of-territory (Region 2 and CAR) borrowers which includes loans whose collaterals are outside of bank's business operations and shall set a determined loan limit on a group scale.

Out-of-territory borrowers – should not exceed 8% of the loan portfolio (group-wide) but not exceeding the SBL.

RISK APPETITE – TYPE OF COLLATERAL/SECURITY

The bank recognizes diverse type of collaterals that can be offered by borrowers ranging from those secured by Real Estate Mortgage, Chattel Mortgage, Hold-out of deposit and even those loans that are unsecured in nature. The bank has high risk appetite for loans that are fully secured and low risk appetite for those that are not.

- *Real Estate Mortgage – no defined limit*
- *Chattel Mortgage – 20% of the Loan Portfolio*
- *Unsecured loan – 10% of the Loan Portfolio*

RISK APPETITE – LOAN CLASSIFICATION

The bank shall adhere with the following minimum percentage of compliance with the standard set by the Bangko Sentral ng Pilipinas (BSP), as follows;

- *Agrarian Reform Loans – 40%*
- *Other Agricultural Credit Loans – 20%*
- *Micro and Small Scale Enterprise loan – 12%*
- *Medium Scale Enterprise Loan – 60-70%*

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

The Bank's risk management policies cover the following:

1) Structure of limits and guidelines to govern risk-taking. These shall include actions that shall be taken when risk limits are breached, including notification and escalation to higher level of Management and corresponding sanctions for excessive risk taking;
2) Clearly delineated responsibilities for managing risk based on the three (3) lines of defense;
3) System for measuring risk;
4) Checks and balances system; and
5) Framework for risk data aggregation and risk reporting.

The degree of sophistication of the risk management and internal control processes and infrastructure shall keep pace with developments in the bank such as balance sheet and revenue growth; increasing complexity of the business; risk configuration or operating structure; geographical expansion; mergers and acquisitions; or the introduction of new products or business lines, as well as with the external risk landscape; business environment; and industry practice. This should enable a dynamic, comprehensive, and accurate risk reporting.

In this respect, the bank shall ensure that the risk data aggregation capabilities meet the following principles:

1) Accuracy and integrity - this refers to the capability to generate accurate and reliable risk data to meet normal and stress reporting accuracy requirements.

2) Completeness - this refers to the capability to capture and aggregate all material risk data across the banking group. Data should be available by business line, legal entity, asset type, industry, as relevant for the risk in question, and should permit the identification and reporting of risk exposures, concentrations, and any emerging risks.

3) Timeliness - this refers to the capability to generate aggregate and up-to-date risk data in a timely manner while also meeting the principles relating to accuracy and integrity, completeness and adaptability. Timing shall depend upon the nature and potential volatility of the risk being measured as well as its criticality to the overall risk profile of the bank. Timing shall also depend on the bank-specific frequency requirements for risk management reporting, under both normal and stress/crisis situations, set based on the characteristics and overall risk profile of the bank.

4) Adaptability - this refers to the capability to generate aggregate risk data to meet a broad range of on- demand, ad hoc risk management reporting requests, including requests during stress/crisis situations, requests due to changing internal needs and requests to meet supervisory queries.

d. AML governance and culture, and description of the overall Money Laundering (ML)/ Terrorist Financing (TF) risk management framework to prevent the use of the bank for ML/TF activities

In conformity with the Bangko Sentral ng Pilipinas' policy on Anti-Money Laundering, Rural Bank of San Mateo (Isabela), Inc. has adopted the Money Laundering and Terrorist Financing Prevention Program Manual.

This is a compilation of the policies and procedures adopted to:

(a) protect the integrity and confidentiality of bank accounts and ensure that the Philippines, in general, and the covered persons, in particular, shall not be used, respectively, as a money laundering site and conduit for the proceeds of an unlawful activity as herein defined; and

(b) to protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses.

5. Corporate Governance

a. Overall corporate governance structure and practices

The Board of Directors and the Management of the RURAL Bank OF SAN MATEO (ISABELA), INC. (RBSMI) commit themselves to the principles and best practices contained in the bank's Manual on Corporate Governance – even as they acknowledge that the conscientious and strict adherence to the provisions of this Manual will positively guide the attainment of the bank's corporate goals – mission and vision.

The provisions of the Corporate Governance Manual institutionalize the general and special principles and tenets of good corporate governance of the Rural Bank of San Mateo (Isabela), Inc. and all layers of the organization, including the Board of Directors and the various levels of Management.

b. Selection process for the board and senior management

The Board of Directors shall consist of seven (7) members, two (2) of whom are independent directors.

All directors shall be elected by and from among the stockholders (owning at least one (1) share of corporate stock of the bank). For independent directors, their nomination and election must comply with the requirements set forth under the Manual of Regulations for Banks (MORB) of the BSP.

Annual election of directors is done during the annual stockholders' meeting every 13th of February. Directors are selected from a pool of candidates who possess the qualifications as stated in the bank's by-laws. Seven directors are elected based on the number of votes obtained from the election held. Members of the Board of Directors undergo performance appraisal annually using the format set by the Bank.

The Board of Directors select senior management based on factors such as performance and length of service. Annual performance appraisal is conducted to assess each senior management's accomplishments for the year. Promotion and/or any movement of senior management is subject to Board approval.

c. Board's overall responsibility

The board of directors is primarily responsible for defining the Bank vision and mission. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

a. The board of directors shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank's and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:

(1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behavior that could result or potentially result in conflict of interest, personal gain at the expense of the Bank's as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.

(2) Consistently conduct the affairs of the bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Bank's, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.

(3) Oversee the integrity, independence, and effectiveness of Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the Bank's in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

b. The board of directors shall be responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:

(1) Ensure that the Bank's has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

(2) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

(3) Actively engage in the affairs of the Bank's and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank.

(4) Approve and oversee the implementation of policies governing major areas of the Bank's operations. The board of directors shall regularly review these policies, as well as evaluate control functions with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

c. The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. in this regard, the board of directors shall:

(1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Bank's business, either current or planned, shall be the key considerations n the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.

(2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy.

(3) Oversee the performance of senior management and heads of control functions:

(a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.

(b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.

(c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.

(d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

(4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.

(5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.

(6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank's at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

d. The board of directors shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework. In this regard, the board of directors shall:

(1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed.

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

(3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.

(4) Conduct and maintain the affairs of the Bank’s within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations.

(5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.

(6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.

(7) Approve the policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged.

(8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group.

e. The board of directors shall be responsible for approving Bank’s risk governance framework and overseeing management's implementation thereof.

f. The Board of Directors, through its Audit Committee, ensures the effectiveness and adequacy of the internal control system of the Bank through the approval of the annual audit plan. The Internal Audit Department shall prepare an accomplishment report quarterly vis-à-vis the approved Internal Audit Plan for the year and reports its progress and percentage of accomplishment to the Audit Committee.

d. **Description of the role and contribution of executive, non-executive, and independent directors, and of the chairman of the board**

Role and Major Contribution of the Chairperson of the Board of Directors

The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

(1) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
(2) Ensure a sound decision making process;
(3) Encourage and promote critical discussion;
(4) Ensure that dissenting views can be expressed and discussed within the decision-making process;
(5) Ensure that members of the board of directors receives accurate, timely, and relevant information;
(6) Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
(7) Ensure conduct of performance evaluation of the board of directors at least once a year.

Role and Contribution of Executive Directors:

(1) Board Governance. Works with board in order to fulfill the organization mission.
(2) Financial Performance and Viability. Develops resources sufficient to ensure the financial health of the organization.
(3) Organization Mission and Strategy. Works with board and staff to ensure that the mission is fulfilled through programs, strategic planning and community outreach.
(4) Organization Operations. Oversees and implements appropriate resources to ensure that the operations of the organization are appropriate.

Role and Contribution of Non-Executive Directors:

(1) Strategy. Non-Executive Directors should constructively challenge and help develop proposals on strategy.
(2) Performance. Non-Executive Directors should scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
(3) Risk. Non-Executive Directors should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.
(4) People. Non-Executive Directors are responsible for determining appropriate levels of remuneration of executive directors, and have a prime role in appointing, and where necessary removing, executive directors and in succession planning.

Role and Contribution of Independent Directors:

Independent directors have an important role to play in the progress of the Bank. They are considered as both a safeguard and a significant source of competitive advantage.

The role of independent directors broadly includes improving corporate credibility and governance standards, functioning as watchdog, maintaining balance in a promoter dominated scenario, play vital role in risk management. Their main role in the company is to protect the interests of the minority shareholders vis-à-vis the promoters.

The main role of independent directors is to improve corporate governance standards. Independent directors help in the proper functioning of the corporate because of the fact that they do not have any pecuniary interest in the company and that they will represent the interest of the shareholders.

The independent directors on corporate board lies takes an independent decision on a given subject without being influenced in any manner. They provide transparency in respect of the disclosures in the working of the company as well as providing balance towards resolving conflict areas. They have a significant role in protecting the stakeholders' interests.

The independent directors also play a key role as a member of the audit committee of the company. The chairman of the audit committee is an independent director.

e. Board composition

NAME	TYPE OF DIRECTORSHIP	NUMBER OF YEARS SERVED AS DIRECTOR	# OF SHARES HELD	PERCENTAGE OF SHARES HELD TO TOTAL OUTSTANDING SHARES
Patricia Rosario Maria G. Remijan	Non-executive	4	5,000	1.0526%
Ronald Melchor D. Silverio	Non-executive	13	260	0.0547%
Katrina Marie P. Pilapil	Executive	17	25,349	5.3366%
Michelle Christine P. Arcenal	Non-executive	3	14,315	3.0137%
Ma. Soledad S. Petines	Non-executive	4	18,640	3.9242%
Raul V. Babaran	Non-executive	1	1	0.0002%
Jonathan B. De Veyra	Non-executive	2	2	0.0004%

BOARD OF DIRECTORS 2022

PATRICIA ROSARIO MARIA G. REMIJAN
Chairperson of the Board

Age & Nationality: 56 / Filipino
Board Position: Chairperson of the Board since 2021
Vice Chairperson for 2020-2021
Non-executive Director since February 2019

Education: BS Economics, Massachusetts Institute of Technology

BS Mathematics, Wellesley College

RONALD MELCHOR D. SILVERIO
Vice Chairperson of the Board

Age & Nationality: 52 / Filipino
Board Position: Vice Chairperson of the Board since 2021
Independent Director 2009-2021
Audit Committee – Chairperson 2019-21

Education: BSC Accounting, University of Santo Tomas
Bachelor of Laws and Letters, University of Santo Tomas, undergrad

Affiliations: Proprietor – Bankers Printing Press

KATRINA MARIE P. PILAPIL
Executive Director / President & Chief Executive Officer

Age & Nationality:	52 / Filipino
Board Position:	Executive Director since 2005 President since 2014 Chief Executive Officer since 2020 Chief Operating Officer - 2005-2020 Asst. General Manager - 1997-2004
Education:	BSC Accounting - De La Salle University

ARCH. MICHELLE CHRISTINE P. ARCENAL
Director

Age & Nationality:	51 / Filipino
Board Position:	Non-executive Director since February 2020
Education:	BS Architecture – *Magna Cum Laude* , University of the Philippines – Diliman
Affiliations:	President – Arkigrafix Corporation President – Arkiprint Corporation Treasurer – Arkiprintshop Corporation

MA. SOLEDAD S. PETINES
Director

Age & Nationality: 70 / Filipino
Board Position: Audit Committee - Member
Non-Executive Director since Feb. 2019

Education: BS major in Mathematics, University of the Philippines – Diliman
Master of Statistics – University of the Philippines - Diliman

Banking-related experiences:
10 years experience in multinational banks, 9 years in Information Technology on auditing and outsourcing companies and 11 years information technology experience on manufacturing companies, banks and insurance companies.

ACCT. JONATHAN B. DE VEYRA
Independent Director

Age & Nationality: 51 / Filipino
Board Position: Chairperson - Audit Committee
Independent Director – 2021-present

Education: B.S. In Business Administration / Commerce major in Accounting, Northeastern College
Masters in Business Administration Northeastern College

Affiliations: Proprietor – J. B. DE VEYRA Accounting & Consultancy Services
Dean – University of Perpetual Help System – College of Business & Accountancy

JUDGE RAUL V. BABARAN (RET.)
Independent Director

Age & Nationality: 64 / Filipino

Board Position: Independent Director – 2022-present
Member - Audit Committee

Education: Bachelor of Arts and Bachelor of Philosophy
University of Santo Tomas

Bachelor of Laws
Ateneo de Manila University

Affiliations: Dean – Isabela State University College of Law

Former Gov't Positions: Executive Judge- RTC Cauayan City

f. Board qualification

To qualify for directorship to the Board of Directors of RBSMI, the following qualifications are considered:

(1) Integrity and Probity:
- Have strong moral principles;
- Must have a record of integrity in his/her personal and professional dealings, a good reputation and willingness to place the interests of the Bank above any conflicting self-interest;
- Must not have any relationship or potential conflict of interests that the candidate or any of his or her related interests has with the bank or its affiliate; and
- Honesty and decency.

(2) Physical/Mental Fitness:
- Must be physically and mentally fit; and
- Must have firm commitment to regularly attend and be prepared for Board and committee meetings.

(3) Relevant Education:
- Must be a Graduate of any 4-year course; and
- Have basic knowledge of the banking Industry, financial regulatory system, and laws and regulations that govern bank operations.

(4) *Financial Literacy/training*:
- Must have attended Corporate Governance Training and Seminar (post-election requirement);
- Must have a financial and business acumen; and
- Must have training on financial analysis and basic accounting or any related course.

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

Audit Committee - The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson: Provided, that the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees. The audit committee shall have accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank.

Duties of the Audit Committee – The audit committee shall oversee the financial reporting framework, monitor and evaluate the adequacy of internal control system, oversee the internal audit and external audit function, oversee the implementation of corrective actions, investigate significant issues/concerns raised and establish whistle blowing mechanism.

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities for:

1. The integrity of the financial statements of the Company;
2. The systems of internal controls over the Company's financial reporting, audit process, compliance with legal and regulatory requirements, and code of ethics that management and the Board of Directors have established as well as the conduct of the regular review of the internal control system, at least annually;
3. The qualifications and independence of the Company's registered public accounting firm (the "External Auditor"); and
4. The performance of the internal audit function and the external auditor.

The Board of Directors, through its Audit Committee, ensures the effectiveness and adequacy of the internal control system of the Bank through the approval of the annual audit plan. The Internal Audit Department shall prepare an accomplishment report quarterly vis-à-vis the approved Internal Audit Plan for the year and reports its progress and percentage of accomplishment to the Audit Committee.

RBSMI Audit Committee

Chairperson: Independent Director Jonathan B. De Veyra
Members: Independent Director Judge Raul V. Babaran (Ret.)
Director Ma. Soledad S. Petines

h. Directors' attendance at Board and Committee meetings

NAME	Position	BOARD MEETINGS	AUDIT COMMITEE
1. Remijan, Patricia Rosario Maria G.	Chairperson of the Boards	20/21	
2. Silverio, Ronald Melchor D.	Vice Chairperson of the Board	20/21	
3. Pilapil, Katrina Marie P.	Executive Director/ President/CEO	20/21	
4.Arcenal, Michelle Christine P.	Director	18/21	
5. Petines, Ma. Soledad S.	Director	20/21	5/5
6. Babaran, Raul V.	Independent Director	19/21	5/5
7. De Veyra, Jonathan B.	Independent Director	21/21	5/5

i. **Executive Officers/ Senior Management**

President - Katrina Marie P. Pilapil

Age and Nationality: 52 yrs. old, Filipino

Ms. Pilapil is a graduate of BSC Accounting at De La Salle University. She has more than 2 decades of banking experience since 1997. She first joined RBSMI as Assistant General Manager to General Manager and as Chief Operating Officer. On year 2014, she was appointed as the new Bank's President and by 2020, the Bank's Chief Executive Officer.

Chief Compliance Officer – Joseph John S. Ronquillo

Age and Nationality: 29 yrs. old, Filipino

Rank: Assistant Vice President

Mr. Joseph John S. Ronquillo has more than nine (9) years of banking experience since May 2013. Prior to his appointment as the Bank's Chief Compliance Officer, he is the Head of Risk Management Unit from June 2018 – October 2020. He is also the Compliance Assistant from October 2017 – May 2018. A Licensed Professional Teacher and currently on his senior year level as a Juris Doctor Student.

Controller – Relita P. Cruz

Age and Nationality: 41 yrs. old, Filipino

Rank: Senior Manager

Ms. Relita Cruz is a graduate of Bachelor of Science in Accountancy. She has been with the Bank since 2003 and held various positions as Secretary, Accounting Clerk, Budget Officer and currently as Head of Controllership Department.

Lending Department Head – Maritess Hermosura

Age and Nationality: 49 yrs. old, Filipino

Rank: Senior Manager

Ms. Maritess C. Hermosura is a graduate of BSBA Major in Marketing Management. She has been with the Bank since 2014 and held various positions as Teller, Loan Officer, Head of Credit Administration Department and currently as Head of Lending Division.

Internal Audit Head – Jhoanna Gonzales

Age and Nationality: 41 years old, Filipino

Rank: Senior Manager

Ms. Jhoanna Gonzales is a graduate of Bachelor of Science in Accountancy. Prior to being appointed as the Head of Internal Audit Department, Ms. Gonzales has been the Bank's Internal Audit Officer since 2008. Prior to her joining the RBSMI, she has been working with several rural banks as Internal Auditor.

j. Performance Assessment Program

The Bank conducts performance assessment of its officers and employees on an annual basis and quarterly, as needed. Evaluation is done using the performance appraisal module on the Core Banking System. Department Heads evaluate their subordinates and measure their performance.

k. Orientation and Education Program

<u>Orientation Program for New Employees</u>

Rural Bank of San Mateo (Isabela) aims to provide the new employee the guidelines to start right in the Company, and to bridge the gap between the selection process and the day-to-day working relationships of the new employee in his job.

The Bank follows certain procedures in the New Employee Orientation. It sets out the guidelines in the preparation of before a new employee arrives, on his first day of work, and in the succeeding period of time until he becomes a regular employee of the bank.

<u>Education Program</u>

The Bank encourages officers and employees to attend seminars and trainings to further enhance their capabilities and to broaden their knowledge in the banking industry. Seminars and trainings conducted by Rural Bankers Association of the Philippines (RBAP) and other group/training providers are essential to the officers and staff.

Cost of seminars and trainings is shouldered by the Bank, and is usually budgeted per department.

I. Retirement and Succession Policy

RETIREMENT AND SUCCESSION POLICY FOR DIRECTORS

Policy Statement	It is the objective of the Company to establish a policy on retirement and remuneration for directors in order to give due recognition to the valuable contributions of the retiring members of the Board.

Terms and Conditions

1. Age- the bank recognizes the importance of experience and expertise of its directors and with it comes long years of practice and exposure in the business. Hence, the bank sets the age limit of retirement to eighty(80) years old but the Board may opt to waive depending on the following conditions:
   a. Result of the Annual Self/Peer Evaluation of the Board and effective "fit and proper" assessment for more effective board refreshment.
   b. The Board shall also evaluate all facts and circumstances when considering a director's tenure in accordance with good governance practices, including (without limitation) to accommodate the transition of a new Chairman or new directors or to provide continuity to further strategic objectives or address external factors affecting the bank.

2. Only the Executive Director is entitled to receive regular retirement benefits as an employee of the bank. An Executive Director is one who is involved in the day-to-day operations of the bank. Non-Executive Directors shall not receive any retirement benefits.

3. Retirement of Officers is done with the requisite succession planning and in accordance with the bank's policies and implementing guidelines of its retirement plan for all employees, the bank's amended By-Laws, Labor Code and the Corporation Code of the Philippines.

4. Only Independent Directors has a term limit of nine (9) years reckoned from year 2012.

   1.1 Procedures
      1.1.1 The replacement of any Board of Director shall be governed by the Constitution and By-Laws of the Bank.
   1.2 Qualifications for Board of Directors:

Fit and Proper for the Position of Director must have:

Integrity and Probity:

- Have Strong Moral Principles
- Must have a record of integrity in his/her personal and professional dealings, a good reputation and willingness to place the interests of the Bank above any conflicting self-interest.
- Must not have any relationship or potential conflict of interests that the candidate or any of his or her related interests has with the bank or its affiliate.
- Honesty and Decency

Physical/Mental Fitness:

- Must be Physically and Mentally Fit
- Must have firm commitment to regularly attend and be prepared for Board and committee meetings.

Relevant Education:

- Must be a Graduate of any 4 yrs. course
- Have basic knowledge of the Banking Industry, Financial regulatory system, and laws and regulations that Governs Bank Operation

Financial Literacy/training:

- Must have Corporate Governance Training and Seminar
- Must have a Financial and Business Acumen
- Must have Training on Financial Analysis, Basic Accounting

Competencies relevant to the Job

- Must know the existing Laws and Regulations of BSP
- Must have Basic financial knowledge including how to read Balance Sheet and Income Statement.
- Previous Employment with the Bank is an advantage or any similar Industry

Knowledge & Experience, skills, diligence and independent mind

1. Must have Previously Managed a Business, or from a banking or similar industry or a Lawyer or Accountant
2. Must have a basic understanding of Banking, regulatory systems, laws and regulations
3. Possess a skill set that complements those of the other directors
4. Has skills that supports banks long range Vision

Sufficiency of time to carry out responsibilities

Learn the Business

Commit to Board Activities:

Prepare for and Attend Meetings

Review Examination and Audit Reports and Ensure responsiveness

Keep up with the affairs of the Bank;

Pursue professional development opportunities

1.3 Assessing Directors:

- Integrity/probity, consideration shall be given to the director's market reputation
- Observe conduct and Behavior
- His/her ability to continuously comply with company policies and applicable laws

- The Director shall submit to BSP the required certification and other documentary proof within 20 banking days from the date of Election.
- Non Submission of complete documentary requirement shall be construed as his failure to establish his qualification and results in his removal from the Board of Directors.

RETIREMENT POLICY FOR EMPLOYEES

1. RETIREMENT

The Company respects the security of tenure of its employees and recognizes their continual contribution to the Company's mission and objectives.

An employee who has reached the age of 60 years and has rendered at least ten (10) years of service in the Company may avail of the retirement benefit of 200% of current monthly basic pay x no. of years of service.

The proceeds of this retirement pay shall not be taxable provided that the bank has a BIR approved retirement plan.

The BOD has the discretion, upon proper evaluation, to give additional benefit or rewards, financial or otherwise, to any employee or officer of the RBSMI based on his/her exemplary work, outstanding performance and proven loyalty to the Bank that contributed greatly to its growth and development.

Succession Plan

1.1. Purpose and Use

Succession Plan is being published by Rural Bank of San Mateo (Isabela), Inc. (RBSMI) because of its desire to ensure that all critical positions of the Company should have a backup in case employees leave for whatever reason. This Plan should be read and understood by all members of the Board of Directors (BOD). The Human Resources Development and Management (HR Mgmt. Section Head) Unit shall assist the BOD in implementing the policies and procedures stated herein.

All RBSMI employees are encouraged to be familiar with this Plan and to coordinate with their immediate Superiors regarding Training and Development Plan details to fully understand their career path in the Organization.

The Board of Directors and President positions in the Company are the central elements in the Organization's success. Therefore, ensuring that the functions of the President including Section/Department Heads are well-understood and even shared among Senior Management. It is important to safeguard the organization against unplanned and unexpected change in leadership. This kind of risk management is equally helpful in facilitating a smooth leadership.

This document outlines a leadership development and emergency succession plan for Rural Bank of San Mateo (Isabela), Inc. and reflects the Bank's Succession Plan and its commitment to sustaining a healthy functioning Organization.

The purpose of this plan is to ensure that the Bank's leadership on specific Section/Department in general will have adequate information and strategies to effectively manage the bank in the event that any Board of Director, the President and/or Division/Department/Section Heads are unable to fulfill their duties due to resignation, termination, retirement or incapacity.

1.2. Principle

RBSMI shall subscribe to the following principles in connection with Succession Plan:

1.3.1 RBSMI communicates to its employees that they are valuable and that RBSMI shall nurture and develop employees from within RBSMI. Those who have skills, knowledge, qualities, experience and desire can be groomed to move up to fill specific positions.

1.3.2 RBSMI commits to develop employee career paths and acknowledges the fact that communication with employees regarding their career path and plan is being done effectively.

1.3.3 Mentoring and coaching is a continued process and endeavor for RBSMI officers and employees so that there is a continued transfer of learning on all levels of the organization.

1.3.4 RBSMI is an employer that invests in its people and provides opportunities and support for their advancement.

1.3.5 RBSMI shall consider for posting an employee for a certain critical position only if that employee has the necessary skills, knowledge, qualities, experience and full desire to learn the ropes of the job.

1.4 Policies

A change in executive leadership is inevitable for Organizations and can be a very challenging time. Therefore, it is the policy of RBSMI to be prepared for an eventual permanent change in leadership either planned or unplanned to ensure the stability of the Bank until such time a new permanent leadership is identified.

The BOD shall be responsible for implementing this policy and its related procedures.

It is also the policy of RBSMI that the BOD assesses the permanent leadership needs of RBSMI to help ensure the selection of a qualified and capable leader. There shall be two kinds of Succession Plan for the critical positions in the Bank:

1.5 Interim Officer

To ensure that RBSMI operations are not interrupted while the BOD and HR Mgmt. Section Head assess the leadership needs and recruit a permanent officer, the BOD and HR Mgmt. Section Head will appoint an Interim Officer. The Interim Officer ensures that the Organization continue to operate without disruption and that all organizational commitments previously made are adequately executed, including but not limited to, loans approved, reports due, licenses and others.

1.6 Pool of Candidates

It is also the policy of RBSMI to develop a diverse pool of candidates and consider at least two (2) finalist candidates for its permanent Officers position. RBSMI shall implement an external recruitment and selection process, while at the same time encouraging the professional development and advancement of current employees. The Interim Officer and any other interested internal candidates are encouraged to submit their qualifications for review and consideration by the search committee according to the guidelines established for the search and recruitment process.

2 Identification of Critical Position Levels

2.1 There shall be three (3) levels in the Organization, based on the to-date Main Table of Organization of RBSMI that Succession Planning meetings be done in coordination with the HR Mgmt. Section Head Unit every year to review and ensure that the critical positions of key officers are covered. There shall be a next in rank in case an Officer is no longer able to serve his position permanently due to any of the following reasons: resignation, termination, retirement or incapacity.

RBSMI Board has identified the three (3) levels of Succession Planning coverage as follows:

2.1 Critical Position Level 1

The Critical Position for Level 1 shall be the President.

2.2 Critical Position Level 2

The Critical Position Level 2 positions shall be the: Division Head (Head for Marketing, Head for Internal Audit, Compliance Officer)

2.3 Critical Position Level 3

The Critical Position Level 3 positions shall be the: Bank Officers/Office Heads (Branch Banking Head, Credit Administration Head, Remedial Management

Head, Controllership Head, Corporate Services Head, IT Head, CorCom and Marketing Support Head, Credit Services Head, Branch Manager, Branch Service Officer, HR Mgmt. Section Head, Loans Servicing Supervisor).

Appointing an Acting President

Based on the anticipated duration of the temporary planned short term or long term absence, the anticipated return date, and accessibility of the current President, the Board of Directors shall appoint the Acting President as indicated in Succession Plan Matrix.

Standing appointees to the position of Acting President in replacement of the President.

The first priority in line to be the Acting President is the Vice President (1st Priority)

The 2nd priority in line is the Compliance Officer

The Board of Directors shall see to it that the appointee complies all the requirements and qualifications needed by a President position, including those imposed by the Bangko Sentral Ng Pilipinas and other statutory agencies.

Implementation plan for Marketing Division and Operation and Support Group (Level 2 position)

The President shall be responsible in reviewing every year to ensure that there shall be someone next in rank in case any or both of these two employees cannot serve the organization due to any of the reasons mentioned above. The next in rank for consideration of these positions shall be any qualified Department Heads in Level 3.

Implementation Plan for Bank Officers/Office Heads (Level 3 position)

The Heads for Marketing Division and Operation and Support Division shall be responsible in reviewing every year to ensure that there shall be someone to replace the existing positions if in case they cannot serve the organization due to any of the reasons mentioned above.

n. Remuneration Policy

Remuneration Policy and structure for executive and non-executive directors

Excerpt from the Bank's Remuneration Policy for Directors state:

Remuneration for Directors- upon approval of the majority of its shareholders and Board of Directors as a whole, both shall determine the level of remuneration or benefits for Directors which shall be sufficient to attract and retain directors and compensate them for attendance at meetings of the Board and Board Committees, commitments to time and specific contributions through chairmanship and membership in board committees.

a. Personnel and Compensation Committee- this committee shall be tasked to recommend remuneration of the Board of Directors based on size and scope of the bank, industry standards and set by reference to the numerous responsibilities taken on by directors as well as for undertaking risks as a Board member.

b. Remuneration Framework- to be reviewed annually to ensure that it remains competitive and consistent with the bank's high performance culture, objectives and long-term risk assessment and strategies.

c. Compensation- may be in various forms, fixed by way of resolution of the Board of Directors. The Board may provide that only non-executive directors shall be entitled to such compensation.

d. The Executive Director- receives remuneration as Officer and not as Director of the Company.

e. Non-Executive Directors- shall be entitled to receive from the bank, pursuant to resolution of the Board, fees, and other compensation for his services as director. The Board shall have sole authority to determine the amount, form and structure of the fees and other compensation of the directors.

Remuneration policy for senior management

Remuneration and compensation for all management levels of the Bank follows one policy only, the Bank's Compensation and Remuneration Policy as aligned with the Labor Laws of the Philippines.

The company needs to ensure that their compensation and remuneration policy adheres to employment legislation including elements of compensation and remuneration that are regulated by provincial employment standards.

OBJECTIVES:

1. Establishing salary ranges – Rural Bank of San Mateo (Isabela), Inc. need to determine where they have to pay specific jobs/job categories in relation to the employment market (industry and regional compensation norms, SEC/IC/BSP, DOLE).

2. Criteria for Salary Increases- in order to ensure fair and equitable compensation practices, the company need to clearly establish, communicate and apply decision making criteria for salary increases. Decisions on salary increases can be based on a number of factors, such as seniority, cost of living increases, or performance (merit) based.

3. Remuneration- theses include fixed remuneration (including fixed salary) – performance-based remuneration (variable salary) – pension schemes, where applicable, other benefits in kind, separation pay-where applicable.

   - The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions.

   - The performance-based remuneration motivates and rewards high performers who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term customer relations, and generate income.

PROCEDURES

1. Salary reviews- to be conducted annually vis-à-vis the result of the annual Performance Appraisal by the members of the company's Compensation Committee

2. 13th Month Pay- mandatory as per government regulations and policies, to be given annually or semi-annually to employees whether regular or probationary in status

3. Bonus and Incentives Pay- based on performance, financial statement and KRA/target goal attainment, given to regular employees/ Board of Directors only.

Top 4 highest paid employees of the Bank for 2022:

1. Katrina Marie P. Pilapil – President-CEO
2. Maritess C. Hermosura – Head - Lending Department
3. Relita P. Cruz – Head-Controllership Department
4. Joseph John S. Ronquillo – Chief Compliance Officer

o. Policies and procedures on related party transactions

i. Overarching policies and procedures for managing related party transactions

RB SAN MATEO (ISA), INC. shall apply strict and consistent compliance with laws and regulations relating to DOSRI and related party transactions as defined in BSP Circular No. 895. It shall ensure that every Related Party Transaction is conducted in a manner that will protect the Bank from conflict of interest which may arise between the Bank and its Related Parties. Furthermore, proper review, approval and disclosure of Related Party Transactions should be done in compliance with legal and regulatory requirements.

The policy on Related Party Transactions are embodied in the Risk Management System Manual in accordance with Circular No. 895 dated December 14, 2015.

Related parties shall cover the Bank's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank; the Bank's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the Bank, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a Bank identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;

(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;

(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or

(4) Permanent proxy or voting trusts in favor of the Bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

ii. Material RPTs

Related party transactions which are reportable to the BSP are as follows:

1. A related party transaction is reportable to BSP if it meets all the following conditions:

1.1 The counterparty falls within the definition of related party (refer to #2 below); and

1.2 The nature of the transaction is among the identified reportable transactions (refer to #3); and

1.3 The amount is considered "significant'' (refer to #3 and #4).

2. Related Party Shall Cover the following:

2.1 DOSRI-

The compliance, monitoring and reporting of DOSRI accounts shall continue to be conducted in accordance with existing regulations internal policies and shall not be deemed superseded, revised or amended by this policy. Specifically all DOSRI transaction require final approval by the Board of Directors.

2.2 Other Related Parties

2.2.1 RB SAN MATEO (ISA), INC. RELATED

a.) Expanded Related Interest (RI) for Directors and Officers (Key Management)

Related interest of	**Under DOSRI**
	Only first degree of consanguinity of affinity; legitimate or common law
a. Directors of RB SAN MATEO(ISA), INC.	Include
b.Officers of RB SAN MATEO(ISA), INC. with rank of SVP	Include

The extent of coverage of related interest of RB SAN MATEO (ISA), INC. Directors whether regular or independent, and RB SAN MATEO (ISA), INC.

Officers with a position of Vice President and higher (otherwise known as the Key Management personnel or KMPs), shall be expanded as follows:

b.) Entities that are related to RB SAN MATEO (ISA), INC. through common Directors/ Senior Officers but are not classified as DOSRI or affiliate as defined in section a.&b. above.
c.) Entities that are owned by the spouses and/ or 1st degree relatives of the RB SAN MATEO (ISA), INC. Director/ senior officer that are not classified as DOSRI provided ownership is at least 10%.
d.) Entities that are owned by the 2nd degree relatives of a RB SAN MATEO (ISA), INC. Director / Senior Officer that are not DOSRI provided ownership is more than 50%

1. Others
   a) Entity where the performance of its obligation with RB SAN MATEO (ISA), INC. is dependent on an arrangement between the said entity
   b) Any other entity which as determined by Compliance or Legal Office has a significant amount of influence shall be vetted by the Board of Directors to ensure that compliance and good governance standards are maintained.

2. Amount of Threshold per Transaction

	TYPE	AMOUNT
1.	Agency arrangements/ service contracts / construction contract/ lease arrangements and other similar contracts	Cumulative P1.0M per counterparty
2.	Asset purchases and sales contract	P1M per transaction
3.	Loan/Lease availments, Investments & Joint Ventures, Write-off of Related Party Transaction	P1M per transaction
4	Investments	P1M per transaction
5	Purchase or sales of goods	P1M per transaction
6	Rendering or receiving of services contact	P1M per transaction
7	Transfer of technology	P1M per transaction
8	Such other significant transactions which, a determined by the Board, could pose material risk or potential abuse to the bank and its stakeholders.	P1M per transaction

Note: 1st degree-children, parents;
2nd degree - grandchildren, grandparents, siblings;

3rd degree - great grandparents, great
Grand children, nieces and nephews,
uncles and aunts;
4th degree - great great grandparents, great great
Grand children, first cousins

Material Related Party Transactions
RURAL BANK OF SAN MATEO (ISABELA), INC. 044225
Name of Bank Bank Code
12/31/2022
Date

Parent Bank/QB and Subsidiary/Affiliate	Related Counterparty	Relationship Between the Parties	Transaction Code	Type of Transaction	Amount/Contract Price	Terms	Rationale for Entering into the Transaction
A. Bank/QB							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P 13,450,000.00	5 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P 1,000,000.00	2 YEARS, AMORTIZED, 12.5% INTEREST RATE AND 2% BANK CHARGE	UNSECURED LOAN, HIGHER INTEREST RATE
	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P12,800,000.00	5 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P5,880,000.00	3 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	Domingo, Edward Yutangco	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P 1,500,000.00	2 YEARS, AMORTIZED, 12% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	Domingo, Edward Yutangco	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P 1,100,000.00	2 YEARS, AMORTIZED LOAN, 12% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	Coloma, Austson Jr. Tan	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	P 5,000,000.00	7 DAYS, LUMP SUM, 9% INTEREST RATE, NO BANK CHARGE, BACK-TO-BACK LOAN	Zero Risk, Back-to-Back Loan
B. Subsidiary 1							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
C. Subsidiary 2							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
D. Affiliate 1							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							

p. Self-Assessment Function

i. The structure of the internal audit and the compliance functions including its role, mandate/authority, and reporting process

The Bank's Internal Audit Department has the following responsibility, authority, and independence:

RESPONSIBILITY. The major responsibilities of the Internal Auditor includes:

- To inform and advise the board of directors and management of the Bank and other allowed users of the Internal Audit Program;
- To coordinate activities with other operating departments or divisions to achieve the objectives of the audit and the objectives, mission, and vision of the Bank;
- To discharge the responsibilities referred to above.

The Internal Auditor does not have direct responsibility nor authority over any of the activities to be reviewed by him/her. Therefore, the Internal Audit review does not in any way relieve the management of the operations and of the responsibilities assigned to the personnel complement. The effectiveness and efficiency of operations continues to be the responsibility of the Bank's management.

AUTHORITY. Management provides the Internal Auditor full access to all the records, properties and personnel relevant to all subjects under review. Also, the Internal Auditor is free to review and apprise policies, plans, procedures, and records, and to propose possible improvements thereto.

INDEPENDENCE. Independence is essential to the effectiveness of the Internal Auditing function. This independence is obtained primarily through organizational status and objectivity. The Internal Audit Department directly reports to the Audit Committee of the Board of Directors.

The Chief Compliance Officer has the general responsibility of assisting the board of directors in providing oversight in the implementation of the Bank's compliance system.

The Compliance function facilitates the effective management of compliance risk by:

a. Advising the board of directors and senior management on relevant laws, rules and regulations, including information on developments in the areas;
b. Discussion with bank personnel on compliance issues, and acting as contact point within the bank for compliance queries by bank personnel;

c. Establishment of written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, code of conduct, and other guidelines;
d. Identification, documentation and assessment of compliance risks associated with the Bank's business activities, including new products and business units;
e. Assessment of the Bank's compliance procedures and guidelines, following up of deficiencies and formulation of proposal for amendments;
f. Monitor and testing compliance by performing sufficient and representative compliance testing; and
g. Maintenance of a constructive working relationship with the Bangko Sentral ng Pilipinas and other regulators.

The Chief Compliance Officer directly reports to the Board of Directors.

ii. The review process adopted by the Board to ensure effectiveness and adequacy of the internal control system

The Board of Directors of RBSMI has an Audit Committee that is tasked to review the effectiveness and adequacy of the internal control system, which is conducted on a regular basis, at least annually.

q. Dividend policy

The Bank follows BSP Regulations in the declaration of dividend to its stockholders. The amount of dividends is based on the by-laws of the bank. SECTION 5. Earnings – The bank shall, at the end of the fiscal year, apply the amount of its earnings in excess of operating expenses during such fiscal year to replenishing any impairment to its capital. Any sums remaining shall be the basis in the distribution of dividends to stockholders

The Bank declared a P4 Million Cash Dividends to its stockholders on February 23, 2022.

r. Corporate Social Responsibility Initiatives

The Rural Bank of San Mateo (Isabela), Inc. (RBSMI) believes that it must carry out its own Corporate Social Responsibility Program as a means of giving back the blessings it received to the community where it belongs.

Rationale

Corporate Social Responsibility (CSR) is the continuing commitment by every business entity to behave ethically and contribute to the economic development and help in environmental preservation/protection while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Objectives:

1. To provide assistance to community development projects of the Local Government Units within which the company's offices are located;
2. To provide assistance to projects being catered to by Non-Government Organizations;
3. To award scholarship programs to the less fortunate but well-deserving students from the public schools where the company's offices are located
4. To extend scholarship program to children of deserving employees;
5. To extend scholarship program to employees
6. To donate educational materials, gadgets, tools and instruments to public schools for instructional purposes to aide better-learning capabilities of students.
7. To donate materials for school improvements
8. To extend assistance either in cash or in kind to victims of calamities, pandemic and other unforeseen events
9. To conduct humanitarian programs for the community in need

Funding:

The amount of One Million Pesos (Php1,000,000.00) shall be appropriated by the Board of Directors from the Retained Earnings of the bank from which all CSR projects will be funded. The unused funds shall automatically be reverted back to the retained earnings of the bank at the end of each fiscal year. The amount of P1,000,000.00 shall be automatically renewed for appropriation at the beginning of each of the succeeding years.

Terms and Conditions:

A. Community Development Projects of the LGUs- the company shall donate either financially or in kind to poverty alleviation, livelihood, socio-economic projects of the LGUs subject for Board approval.

B. NGO Projects- the company shall help by donating to community development projects catered by NGOs in areas affected by calamities, poverty and war, subject for Board approval.
C. Humanitarian programs- the company may conduct programs that may help alleviate poverty and address other arising concerns in every community where its corporate offices and other nearby towns.
D. Scholarship Programs-
    1. The company shall choose one student belonging from the Top Ten honor roll of at least one public high school per year(those in the areas where offices of the company are located).
    2. A Memorandum of Agreement shall be entered to by and between the company and the chosen student scholar or in case he/she is still a minor, he/she shall be represented by his/her parents/guardians. Included in the MOA shall be the condition that if the student scholar will not be able to fulfill item no. 5 of this program, he/she shall be liable to refund to the bank the full amount of the scholarship.
    3. The company shall provide either the full or partial tuition fee of the student scholar for the course relevant to banking and finance subject for Board approval.
    4. The student scholar shall maintain a grade point average of 1.75(90%) throughout the semester covered by the scholarship. Failure to maintain said average shall automatically forfeit the scholarship grant for the succeeding semester. Course should be related to banking.
    5. Upon graduation, the student scholar shall serve the company for an equivalent of one(1) year per year of scholarship.
    6. Children of well-deserving employees may apply for this scholarship program subject for approval by the Board.
    7. Continuing Education Program- employees who wish to pursue graduate programs on Master in Business Administration (MBA), Corporate Law or Bachelor of Laws and Letters (LIB) / Juris Doctor (JD), Certified Public Accountant (CPA) Review and other related courses needed in their functions within the company may avail of the continuing education program. Every semester availed of shall be equivalent to one (1) year of service to be rendered in the bank. A Memorandum of Agreement shall be contracted between the company and the employee-beneficiary for the aforementioned purpose.

E. Educational materials, gadgets, tools and instruments- the company shall donate Educational materials, gadgets, tools and instruments to schools within areas where company offices are located subject for Board approval. The materials shall be given after the recipient school enters into a Memorandum of Agreement with the company that the former shall plant twenty (20) seedlings of fruit-bearing trees and shall take care of the same until maturity within its premises with proper documentation.
F. Funding per project- donations either in kind or in cash shall not exceed One Hundred Thousand Pesos (Php100,000.00) per project as per approval of the Board.

In case of projects not listed above;

1. Projects which are not included in the above-listed conditions shall also be subject to Board approval;
2. As well as those included in the above-written conditions which require more than One Hundred Thousand Pesos (Php100,000.00) amount of funding per project.

In case of projects not listed above;

Projects which are not included in the above-listed conditions shall also be subject to Board approval;
As well as those included in the above-written conditions which require more than One Hundred Thousand Pesos (Php100,000.00) amount of funding per project.

s. Consumer Protection Practices

i. Role and responsibility of the Board and Senior Management for the development of consumer protection strategy and establishment of an effective oversight over the bank's consumer protection programs

Rural Bank of San Mateo (Isabela), Inc. (RBSMI) is in full support of the State's policy of providing protection to its consumers, upholding their welfare and establishing principles and standards of conduct for the banking industry. For this, the Bank has the role of ensuring that the best interests of financial consumers are protected.

ROLES AND RESPONSIBILITIES OF OVERSIGHT BODIES

BOARD OF DIRECTORS

- The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by Rural Bank of San Mateo (Isabela), Inc. (RBSMI) Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks.

- The Board of Directors takes steps to develop an appropriate understanding of the customer risks the Bank faces through briefings from auditors and experts external to the organization.

- The Board of Directors provides clear guidance regarding the level of customer protection risk acceptable to the Bank and ensures that senior management implements the procedures and controls necessary to comply with the policies that have been adopted.

- The BOD is responsible for developing and maintaining a sound Customer Protection Risk Management System that is integrated into the over-all framework for the entire product and service life-cycle.

- Each director has a level of knowledge commensurate with the nature of his or her role in managing the Bank's customer protection program. This can be done through attendance to trainings and seminars, interaction with experts and regulatory personnel knowledgeable to this line.

- The Board reviews and approves appropriate customer protection policies to limit risks inherent in the Bank's significant business lines, activities, or products, including ensuring effective oversight of any third-party providers that provide products and services for the Bank.

- The Board periodically reviews and approves customer protection risk exposure limits to conform to any changes in the Bank's strategies and addresses the extent of protection assumed by the customers when new products are introduced.

SENIOR MANAGEMENT

- Senior management is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis. Accordingly, management should be fully involved in its activities and possess sufficient knowledge of all major products to ensure that appropriate risk controls are in place and that accountability and lines of authority are clearly delineated.

- Senior management also is responsible for establishing and communicating a strong awareness of, and need for, effective customer protection risk controls and high ethical standards.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

- The BOD and Senior Management periodically review the effectiveness of the Customer Protection Risk Management System (CPRMS) including how findings are reported and whether the audit mechanism in place enable adequate oversight.

- The BOD and Senior Management must ensure that sufficient resources are devoted to the customer protection program.

- They must be certain the FCP weaknesses are properly addressed and corrective actions are taken in a timely manner.

- The Board and Senior Management are sufficiently familiar with and are using adequate record keeping and reporting systems to measure and monitor the major sources of customer risk to the Bank.

- The Board and Senior Management ensure that the depth of staff resources is sufficient to operate and manage the Bank's customer protection activities soundly and that employees have the integrity, ethical values, and competence that are consistent with a prudent management philosophy and operating style.

- The Board and Senior Management anticipate and respond to customer protection risks that may arise from changes in the Bank's competitive environment and to risks associated with new or changing regulatory or legal requirements.

ii. The consumer protection risk management system of the bank

The Customer Protection Risk Management System (CPRMS) is a means by which a Bank can identify, measure, monitor and control customer protection risks inherent in its operations. The risks belong to the financial customer or the Bank.

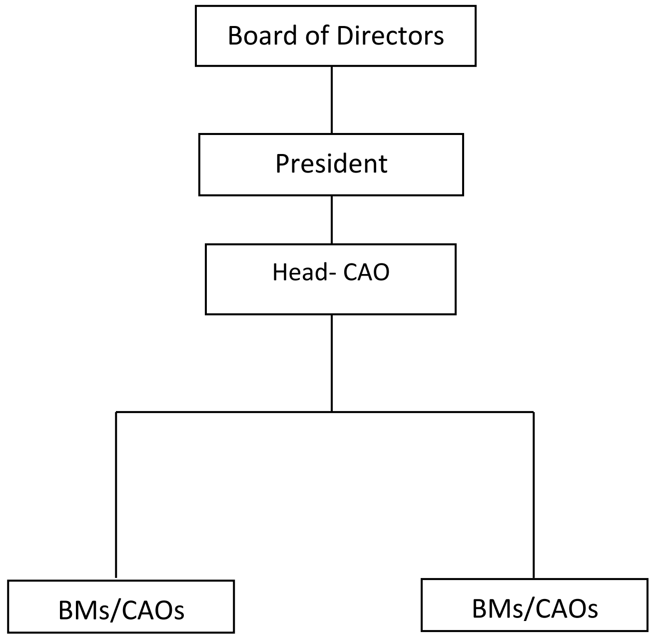
The CPRMS is proportionate to the size, structure and complexity of Rural Bank of San Mateo (Isabela), Inc. (RBSMI) operations. It provides the foundation for ensuring the Bank's adherence to CP standards of conduct and compliance with customer protection laws, rules and regulations in order to prevent risk to the Bank and any harm or financial loss to the customer.

The policies and procedures of the CPRMS are embodied in the Financial Consumer Protection Manual of the Bank.

iii. The consumer assistance management system of the bank which shall include the customer assistance policies and procedures as well as the corporate structure for handling complaint

STRUCTURE

Rural Bank of San Mateo (Isabela), Inc. (RBSMI) follows its existing operational channel in handling customer complaints. It has designated its Branch Managers to serve as the Customer Assistance Officers (CAOs). The CAOs then report to the HCAO for the latter to present and discuss the report on complaints to the President, and subsequently report to the Board which will provide action based on the recommendations of the President. The structural chart for CAMS is presented below:



ROLES OF CUSTOMER ASSISTANCE OFFICER (CAO)

The Branch Managers who are designated as CAOs shall have the following functions and responsibilities:

a. Receives and acknowledges customer concerns, either complaint or request. A Complaint/Request Form shall be provided to the customer to file the complaint with the Bank;

b. Records customer's concerns in a logbook. A database of concerns is encoded in the computer

c. Makes an initial review and investigation of concerns of the customer. He/She shall see to it that the primary cause of the customer's concern is identified properly;

d. Processes concerns of the customer. The CAO shall immediately address the concern of the customer. If the concern requires Head CAO's assistance, send immediately the concern to them;

e. Provides official reply to the customer. The reply shall be approved by the Head CAO ;

f. In order to determine whether the Bank has satisfactorily addressed the concern of the customer, requests client feedback;

h. Prepares and submits a summary report to Head Customer Assistance Office (HCAO)

Consumer Assistance Channels:

Contact Number: 09175210985 / (078) 323-0815
Email Address: rbsmi_consumerassistance@rbsanmateoisa.com
Facebook page: https://www.facebook.com/Rural-Bank-of-San-Mateo-Isabela-Inc-405677642816604

Contact Person: Jason E. Corpuz – Customer Service Officer

RBSMI

RURAL BANK OF SAN MATEO (ISABELA), INC.

SUSTAINABLE FINANCE FRAMEWORK

1. SUSTAINABILITY PHILOSOPHY

The management of Environmental and Social Risk shall increase stakeholder's value and contribution to the Bank's long-term sustainability on its immediate commitment to balance economic success with Environmental and Social responsibility.

1.1 INTRODUCTION TO RURAL BANK OF SAN MATEO (ISABELA), INC.

Rural Bank of San Mateo (Isabela), Inc. is focused on providing high quality and responsive financial products to its clients within the Cagayan Valley Region. We contribute to the local economy by providing credit facilities to constituents.

Product-wise, we offer various deposit and loan products according to the needs of its clients, both young and old, from farmers to business owners. The Bank also facilitates real-time transactions through partnership with a digital technology platform.

RBSMI strives to be a change- maker in the era of digitalization. With our stakeholders in mind and guided by years of experience, openness to novel ideas, and compulsion to innovate, RBSMI is focused on holistic and inclusive solutions with sustainability at the forefront.

RBSMI continues to power the future of banking by adopting to digital innovations, delivering on our promise of environmental and social responsibility, all while espousing our core values of Integrity, Professionalism, Commitment to excellence and innovation.

1.2 RBSMI SUSTAINABILITY PRINCIPLES

A. RBSMI is committed to balance economic success with Environmental and Social responsibility.
B. RBSMI aligns its strategic objectives with the United Nations 17 Sustainable Development Goals (SDGs).
C. Effective management of Environmental and Social Risks is a result of the collective action of all personnel in the Bank.
D. The management of Environmental and Social Risks shall increase the stakeholder’s value and contribute to the Bank's long-term sustainability in its immediate commitment.

1.3 RBSMI SUSTAINABILITY STRATEGY

A. Promotion of renewable energy which entails the use of solar panels and other renewable energy sources.
B. Promote food security through good and modern agricultural practices.
C. Selective provision of loan to borrower’s with sustainable practices.
D. Support to economic empowerment through the provision of accessible credit.
E. Promotion of social equality through affordable housing loan.

F. Support employment generation through MSME Financing.

1.4 DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

Board of Directors

Consistent with the expectations set out under Sec. 132 to promote the long-term financial interest of the bank and ensure that it has beneficial influence on the economy, the board of directors shall:

a. Institutionalize the adoption of sustainability principles, including those covering E&S risk areas in the bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operations taking into account the bank's risk appetite and ability to manage risk. It shall:

   i) Ensure integration of sustainability principles in the risk management system particularly in the bank's risk strategy, risk appetite, and risk management policies and procedures;

   iii) Approve the risk appetite on specific risk areas informed by the level of risk exposures that the bank is willing and capable to manage, results of stress testing exercises, and assessment of the timing and channels through which E&S risks may materialize; and

   iv) Ensure that E&S risks are incorporated in stress testing exercises and the results thereof are considered in the Internal Capital Adequacy Assessment Process (ICAAP).

b. Institutionalize a capacity building program for all officers and personnel to equip them in identifying, measuring, monitoring, and controlling E&S risks.

1.5 DUTIES AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

Senior Management

The senior management shall be responsible for the overall implementation of the board-approved strategies and policies in relation to the sustainability objectives of the bank. It shall:

a. Assess on a periodic basis the effectiveness of implementation and continuing relevance of said policies considering the developments in the business environment;

b. Facilitate the identification, assessment, monitoring and mitigation of E&S risks. The senior management shall ensure that the bank takes a holistic approach in managing these risks aligned with the strategic objectives set by the board of directors;

c. Ensure activities that expose the bank to E&S risks are aligned with the overall E&S strategic objectives and targets. Senior management shall facilitate assessment of existing E&S risks and implementation of plans to attain E&S strategic objectives and targets.

d. Ensure adoption of methodologies and tools that will effectively identify, and quantify/measure, monitor and control E&S risks.

e. Ensure that policies, procedures, and processes are clearly and effectively communicated across the organization.

f. Assess consistency of operations and performance of personnel with the bank's sustainability objectives; and

g. Apprise the board of directors on a regular basis on the bank's exposure to E&S risks which shall include potential issues associated with both internal and external activities of the bank and the activities of its clients that may have material impact on the bank's portfolio or reputation. Moreover, the senior management shall report its progress in implementing the bank's sustainability policies and ESRMS.

1.6 DUTIES AND RESPONSIBILITIES OF INTERNAL AUDIT AND COMPLIANCE FUNCTION

Internal Audit and Compliance Function

The audit and compliance functions shall incorporate in their respective programs the assessment of adherence to policies related to the management of E&S risks and evaluation of the robustness and continuing relevance of said policies. The internal audit function shall also review the bank's adherence to international sustainability standards and principles as well as the relevant laws and regulations.

1.7 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM (ESRMS)

The ESRMS shall be articulated in a separate document solely relating to the management of E&S risk or embedded in existing documents related to the management of specific risk areas, (e.g., credit risk management system). At a minimum, the ESRMS shall:

a. Define the level of risk appetite of the bank on E&S risk. The scope and complexity of the ESRMS shall be commensurate with the level of E&S risks associated with the bank's portfolio.

b. Provide clear guidance in assessing E&S risks in the bank's operations, products and services, transactions, activities, and operating environment. The ESRMS shall also identify which sectors or activities have elevated or emerging E&S risk or are considered to have harmful effects to the environment or society.

c. Provide the tools for monitoring E&S risk as well as the compliance of the bank and its counterparties with sustainability-related standards, laws and regulations. The ESRMS shall likewise provide the measures should be taken in case of breaches in limits or thresholds or non-compliance with the sustainability-related standards, laws and regulations.

d. Provide tools for assessing identified E&S risks and for considering the same in the aggregate risk exposures of the bank.

e. Identify the unit personnel responsible for overseeing the management of E&S risks. The bank may establish a new unit to perform such function or integrate the same in the functions of existing risk management units. The ESRMS shall set out the duties and responsibilities of all personnel in the organization in managing E&S risk.

1.8 SCOPE OF SUSTAINABLE FINANCE

Loan Products	***Description***	***Alignment with SDGs***
• **Renewable Green Energy Loan**	Financing of renewable energy resources for houses, buildings and other agro-industrial purposes. Either by solar panels, windmills and hydroelectric.	 

• **Farmers Loan** • **Sandigan ng Magsasaka Loan** • **Livestock and Poultry Loan** • **Farm Machinery Financing**	Financial services provided to farmers, farm machinery operators and to individuals engaged in other agricultural activities (e.g. livestock, poultry, fishery, etc.).	2 ZERO HUNGER 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
• **Commercial Loan** • **Financial Back-up Loan** • **Selfie Loan**	It is a debt-based funding arrangement typically used to fund major capital expenditures and or cover operational costs that the company may otherwise be unable to afford. An unsecured loan which aims to provide additional capital to small and medium entrepreneurs in line with their existing business. An unsecured loan which can be availed of by employed individuals, working professionals, Overseas Filipino Workers/Seaman with notarized contract or, if self-employed, with business registered and operating.	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
• **Consumer Loan** • **Fringe Benefit Loan**	This type of loan product can either be "SECURED or UNSECURED Loan" which can be availed by any individual intended for the following purposes: • Personal Consumption • Household expenditures such as: • Medical, Health care & wellness; • Acquisition of service vehicle; • Education; • Vacation & travel; • Special events; • Household expenditures (such as purchase of furniture, appliances, etc.); and • Other related purposes. To uplift the living condition and cushion the high cost of living for the benefit of its officers and employees and to meet their housing,	4 QUALITY EDUCATION 3 GOOD HEALTH AND WELL-BEING 11 SUSTAINABLE CITIES AND COMMUNITIES

• **Salary Loan for employees**	transportation, household and personal needs, do hereby adopt this financial assistance. An unsecured loan that can be availed by Rural Bank of San Mateo (Isabela), Inc.'s employees and security guards for personal purposes.	
• **Educational Loan**	This type of loan product can be availed by an employed individual, intended for the following purposes: • Educational Purposes • Tuition fee • Laptop • And Other related costs	4 QUALITY EDUCATION
• **Pabahay Loan**	Housing loan is a type of financing offered by RBSMI to a borrowers for real estate purposes such as purchase, construction, and refinancing.	11 SUSTAINABLE CITIES AND COMMUNITIES
• **Building Construction or Improvements Financing**	A debt-based funding arrangement usually in the form of a short or long-term loan that is used to finance the following: • Commercial Building Construction or Improvement • Warehouse, storage of supplies and inventory • Construction/Renovation/Improvement of Commercial Building secured by a separate real estate collateral.	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
• **Real Estate Property Acquisition Financing** • **Motorcycle Financing** • **Trucks and**	A debt-based funding arrangement usually in the form of a short or long-term loan that is used to finance the following: • Purchase of Commercial Lot • Purchase of Residential Lot • Purchase of Agricultural Lot • Purchase of Condominium Unit Loan granted to an individual for the acquisition of motorcycle for personal use. It is a loan granted to a person, whether natural or juridical to address the machineries and	11 SUSTAINABLE CITIES AND COMMUNITIES

Heavy Equipment Financing	equipment needed by the businessman by offering them a financial assistance intended for the following purposes: (as amended on March 16, 2023) • Acquisition of trucks (dump truck, tractor head, trailer bed, ten-wheeler truck & etc.) • Acquisition of heavy equipment (loader, backhoe, cement mixer, bulldozer and etc.)	

2. LINKAGE WITH SUSTAINABLE DEVELOPMENT GOALS

Category	*Description*	*Linkage with SDGs*
Food security and promotion of sustainable agriculture	RBSMI provides financial products that benefit the agricultural industry for sustainable agricultural production and to achieve food security. And as part of the Bank's CSR to distribute vegetable seedlings to selected nearby Barangays.	2 ZERO HUNGER 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Economic Growth	RBSMI offered a variety of financial products and services to meet the demands of the MSME sector in order to achieve long-term economic and industrial growth that enhance employment.	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Renewable energy and planet conservation	RBSMI is devoted to green energy solutions and has launched products to finance renewable energy sources that will substantially increase energy efficiency. The Bank also invested in a solar-powered building and reduce paper waste by implementing paperless transactions through a modernized core banking system. All branches are compliant with RA 9003 – The ecological solid waste management act. The following were included in the Bank's CSR: 1. Waste Segregation projects to Schools and Public Places 2. Project WASH (Access to clean	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION 6 CLEAN WATER AND SANITATION

	water) 3. Tree planting activities 4. Clean-up drive	
Sustainable access to basic needs	RBSMI ensures access to basic needs by providing affordable financial products to support the human basic need for safe and affordable housing, sustainable transport system, quality education and health care. RBSMI is focused on promoting financial literacy while striving to be a one-stop bank that can cater every banking services and needs by a customer with convenience. The Bank also incorporated the following sustainable practices: • Assistance and scholarships to students with assuring academic performance. • Quality on-the-job training experience. • Employee access to HMO. • Advocating employees to foster healthy living habits and sustainable lifestyle.	  

3. CREDIT RISK MANAGEMENT

4.1 POLICIES AND PROCEDURES

A. PRODUCT MARKETING

i. The Create a tagline to promote sustainability principles, strategies, and products of the bank.

ii. Include tagline and other sustainability strategies and sustainable products as applicable in all marketing channels such as brochures, social media, tarpaulins, flyers, presentations, website, and face-to-face marketing.

iii. Conduct sustainability literacy marketing programs.

iv. Improve awareness of the benefits of the sustainable finance practices in (a) youtube (b) partnership with other government agencies promoting sustainable practices (c) contests, promotions, and give-aways.

B. CREDIT APPLICATION

i. Include in the credit application forms certain questions about the sustainability practices such as proper waste disposal, compliance with health and safety standards, and responsible water and energy consumption.

ii. Include in the Borrower's Risk Rating certain sustainability or E&S factors and provide incentives to those with good or high rating.

iii. Require compliance certifications from various government agencies depending on the borrower's business (DENR, LTO, DTI, etc.).

C. CREDIT EVALUATION

i. Incorporate E&S risk assessment into the Credit Risk Rating focusing on geographical location, market, industry sector, loan amount and term.

ii. Require a more extensive E&S risk assessment for significant loan applications.

iii. Ensure the adequacy or completeness of submissions of requirements including additional documentations as may be required under the ESRMS (eg. DENR, DOLE, permits, certifications, etc.).

D. LOAN APPROVAL

i. Equip the members of approving authority with the necessary knowledge and training on sustainability topics and issues.

ii. Discuss adequately sustainability practices of borrowers during loan approval and document the same in the minutes of meeting.

iii. Prioritize borrowers that are engaged in sustainability practices and projects during loan approval.

iv. Determine policy exceptions and acceptable deviations including escalation process.

v. Establish loan approval matrix incorporating E&S risks.

E. LOAN DOCUMENTATION

i. Ensure that additional documents are submitted in support of the Bank's E&S strategies:
   (a) Environmental Compliance Certificate – especially for mining, construction, and gravel and sand business
   (b) For mining business –require restoration program
   (c) Health and sanitation certification – especially for food and services business
   (d) Business continuity and succession plan – especially for MSMEs
   (e) Fire insurance

ii. Ensure that the above documents are legitimate and validated by designated personnel.

F. LOAN RELEASE

i. Review the documentary requirements in accordance with the checklist with closer look on the E&S response and controls.

ii. Release directly the loan proceeds to the borrower especially those whose purpose deals with purchasing or investing in renewable energy.

iii. Conduct post-validation of the use of loan proceeds as indicated in the Loan Approval with compliance to E&S factors.

G. CREDIT ADMINISTRATION

i. On data privacy, secure all personal information of the borrowers and place the documents in vault.

ii. Ensure that all titles are encumbered and signed by both parties.

iii. Implement digitization of loan documents by storing them in an electronic data management system such as cloud-based storage as preventive measures against accelerated aging and destruction caused by internal/external human factor and environmental factors.

iv. Require the use of paper shredder to dispose of credit documents of paid accounts above 10 years.

H. CREDIT COLLECTION

i. Encourage clients to adopt digital payments to decrease transportation and traveling expenses.

ii. Adopt paperless transaction system to reduce carbon emissions and save on materials.

iii. Require communication channels such as emails, contact numbers and social media account like FB messenger for constant monitoring of the borrower.

iv. Ensure onsite validation of the client and the business for proactive evaluation of E&SRMS compliance and early mitigation of risk.

I. REMEDIAL MANAGEMENT

i. Check whether the proceeds of loans granted is pursuant to the sustainable finance framework of the bank.

ii. Conduct term loan review to assess and evaluate current status of the account covering the E&S risks.

iii. Monitor and educate at the same time the borrower regarding E&S risks related to their business and how these can help in avoiding defaults.

4. OPERATIONAL RISK MANAGEMENT

POLICIES AND PROCEDURES

i. Implement an orientation program on environmental and social responsibilities on on-boarding of clients.

ii. Promote paperless transactions.

iii. Implement an orientation program on environmental and social responsibilities on on-boarding of clients.

iv. Update core banking system to incorporate environment and social risk identification system.

v. Update performance evaluation system to include the adoption of sustainable finance in the performance evaluation of employees.

vi. Encourage procurement of energy server and environmental friendly IT equipment.

vii. Implement tree planting projects on a regular basis on DENR watershed areas.

viii. Implement zero-waste management on all activities of bank employees both at work and at home.

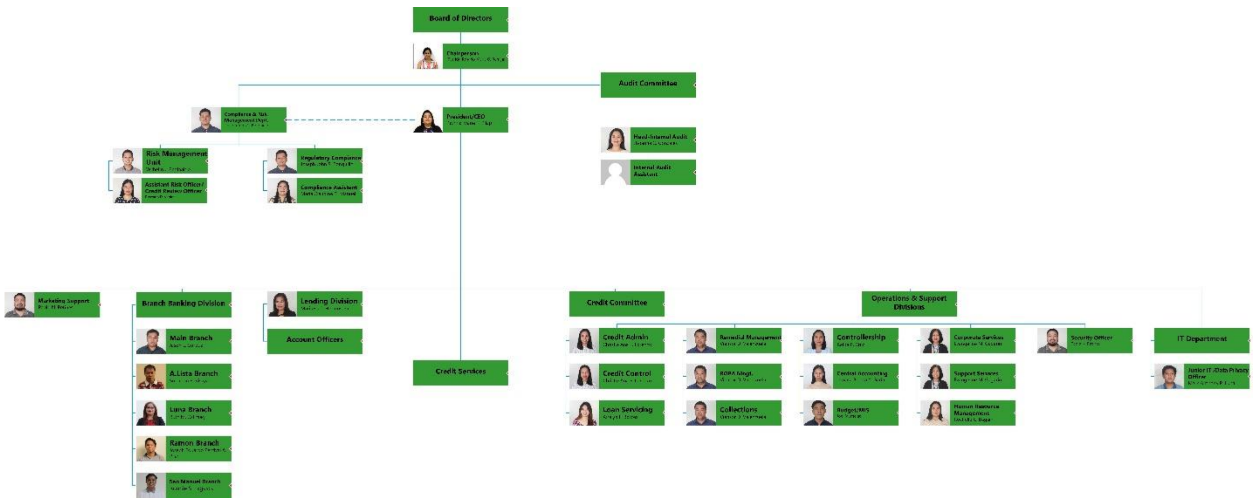
ix. Advocate regular physical exercise program for bank personnel to maintain physical fitness and eliminate risk from absenteeism due to illness.

x. For acquired assets with vacant lot:
(a) Plant trees to contribute to clean air.
(b) Provide signage of bank ownership to prevent outsiders from dumping waste and garbage and squatting.

xi. For acquired assets with existing building/house:
(a) Initiate cleaning activities in the surrounding to eliminate pollutants.
(b) Ensure building/house downspouts are not clogged to prevent breeding areas of mosquitos.

7. CORPORATE INFORMATION

a. Organizational structure, including the name and position of key officers



	NAME	POSITION/DESIGNATION	RANK
1	Pilapil, Katrina Marie P.	Chief Executive Officer	President
2	Ronquillo, Joseph John S.	Chief Compliance Officer	Assistant Vice President
3	Cruz, Relita P.	Controller	Senior Manager
4	Hermosura, Maritess C.	Head, Lending Department	Senior Manager
5	Gonzales, Jhoanna C.	Head – Internal Audit Department	Senior Manager

b. **List of major stockholders of the bank, including nationality, percentage of stockholdings and voting status**

Name of Stockholder	Nationality	Shares Subscribed and Paid	Percentage of Ownership	Voting Status
Petines, Ma. Linda N.	Filipino	108,065	22.75%	Active
Mayo, Helen P.	Filipino	95,467	20.10%	Active
Gapud, Nenita P.	Filipino	53,724	11.31%	Active
Petines, Manuel Y.	Filipino	27,958	5.89%	Active
Pilapil, Katrina Marie P.	Filipino	25,349	5.34%	Active
Ramos, Ma. Alexandra P.	Filipino	18,698	3.94%	Active
Petines, Soledad	Filipino	18,640	3.92%	Active
Petines, Paolo N.	Filipino	17,705	3.73%	Active
Arcenal, Michelle Christine P.	Filipino	14,315	3.01%	Active
Petines, Reginald	Filipino	14,315	3.01%	Active
Petines, John Paul	Filipino	14,315	3.01%	Active
Total		**408,553**	**86.01%**	

c. PRODUCTS AND SERVICES


MAGSASAKA LOAN
Narito na ang iyong sandigan sa...
Pagsasaka (palay, mais, prutas at gulay)
Pag-aalaga ng baboy, kambing pati na rin manok, pato, itik, pugo, atbp.
Pangingisda (tilapia, hito at iba pa)
Halina't magsadya sa aming tanggapan o Tumawag sa numero
Main Office- San Mateo (0917-8936218)
Luna Branch (0975-9329709)
A.Lista Branch (0967-7918849)
Ramon Branch (0905-6045673)
San Manuel (0917-5298152)
Rural Bank of San Mateo(Isa.), Inc. "Ang Iyong Kabalikat Sa Pag-Unlad"


PANGARAP MONG BAHAY, ABOT- KAMAY MO NA!
PABAHAY LOAN
Ask us how!
MAIN OFFICE: 0917-681-0254
SAN MANUEL, ISA. : 0917-529-8152
LUNA BRANCH: 0917-503-4302
A. LISTA BRANCH: 0917-585-6031
RAMON, ISA. : 0917-529-8214
RURAL BANK OF SAN MATEO (ISA.), INC. "Ang Inyong Kabalikat Sa Pag-Unlad"


LOW INTEREST RATE!
FAST PROCESSING!
FAST APPROVAL!
TRUCKS & HEAVY EQUIPMENT
RBSMI FINANCING
For more information Please call :
MAIN OFFICE: 0917-813-6218
SAN MANUEL: 0917-529-8152
LUNA: 0917-503-4302 / 0975-932-9706
ALFONSOLISTA: 0917-585-6031
RAMON: 0917-529-8214
Basic Requirements
• Valid IDs and 2x2 Picture
• Proof of income
• Price quotation
• CR/OR
Visit our FB page Facebook.com/RBSanMateoIsabela/
RURAL BANK OF SAN MATEO (ISABELA), INC.


RURAL BANK OF SAN MATEO (ISA.) INC.
General Requirements
Driver's license 1, 2 (1)
Quotation from dealer(2)
Proof of income(3)
If with business:
ITR/ In- House Income Statement
DTI
Business Permit
Proof of sales
Bank Statement
If Employed:
Certificate of employment
3 months Pay Slip
MOTOR FIN
HONDA
SUZUKI
KTM
DUCATI
Kawasaki
For more information Please call
A.Lista Branch 09175856031
Ramon Branch 09175858214
Main Branch 09178936218
San Manuel Branch 09175298152
Luna Branch 09175856032


RURAL BANK OF SAN MATEO
(ISABELA), INC.
RENEWABLE
ENERGY
LOAN
WE ARE NOW OPEN FOR
FINANCING SOLAR PANEL
INSTALLATION!
In partnership with
5A SOLAR POWER
INSTALLATION SERVICES
SECURED LOAN FOR:
✓RESIDENTIAL
✓COMMERCIAL
✓AGRO INDUSTRIAL/
AGRICULTURAL
FOR MORE INFORMATION
PLEASE CALL
Find us on
Facebook
Rural Bank of San Mateo
(Isabela), Inc.
LUNA BRANCH: 0917 - 585 - 6032
A. LISTA BRANCH: 0917 - 585 - 6031
MAIN OFFICE: 0917 - 893 - 6218
SAN MANUEL, ISA. 0917 - 529 - 8152
RAMON, ISA. 0917 - 585 - 8214


RURAL BANK OF SAN MATEO
(ISABELA), INC.
EDUCATIONAL
LOAN
Tuition fees and
Gadgets for online
class?
WE CAN HELP!
LOW INTEREST RATE
FAST APPROVAL
TERM OF UP TO 12 MONTHS
NO HIDDEN CHARGES
APPLY NOW!
FOR INQUIRIES
PLEASE CALL:
MAIN OFFICE: 0917 - 893 - 6218
LUNA BRANCH: 0917 - 585 - 6032
A. LISTA BRANCH: 0917 - 585 - 6031
SAN MANUEL, ISA. 0917 - 529 - 8152
RAMON, ISA. 0917 - 585 - 8214

OTHER SERVICES OFFERED

d. Website

The Bank's website can be accessed through www.rbsanmateoisa.com

e. List of banking units

BRANCHES	ADDRESS	CONTACT DETAILS
Head Office	National Highway, Barangay 3, San Mateo, Isabela	(078) 323-0815 / 323-0817 0917-585-6033 rbsanmateoisa@rbap.org
Alfonso Lista, Ifugao Branch	Santa Maria, Alfonso Lista, Ifugao	0977-817-5764
Luna, Isabela Branch	Centro, Luna, Isabela	0917-585-6032
Ramon, Isabela Branch	Bugallon Proper, Ramon, Isabela	0917-529-8214
San Manuel, Isabela Branch	National Highway, San Manuel, Isabela	0917-529-8152

2022 Audited Financial Statements (AFS) with Auditor's Opinion (ANNEX A)

II. COMPLIANCE WITH PART V OF APPENDIX 62 OF THE MORB – DISCLOSURES IN THE ANNUAL REPORTS AND PUBLISHED STATEMENT OF CONDITION

A. CAPITAL STRUCTURE AND CAPITAL ADEQUACY:

1. Tier 1 capital and a breakdown of its components

Tier 1 Capital and a breakdown of its components	
Paid up common stock	47,500,000
Retained earnings	108,943,376.00
Sub-total	156,443,376.00

2. Tier 2 capital and a breakdown of its components

Tier 2 Capital and a breakdown of its components	
General loan loss provision	5,605,441
Total Tier 2 Capital	5,605,441

3. Deductions from Tier 1 (50%) and Tier 2 (50%) capital

Deductions from Tier 1 (50%)	
Deferred tax asset, net of deferred tax liability	10,417,690
Deductions from Tier 2 (50%)	
Deductions from Tier 2 Capital	0.00

4. Total qualifying capital

Total qualifying capital	151,631,127

5. Capital requirements for credit risk

TOTAL CREDIT RISK WEIGHTED ASSETS	MULTIPLY BY	CAPITAL REQUIREMENT
813,475,560.35	10%	81,347,556.04

6. Capital requirements for market risk

TOTAL MARKET RISK WEIGHTED ASSETS	MULTIPLY BY	CAPITAL REQUIREMENT
0.00		0.00

7. Capital requirements for operational risk

TOTAL OPERATION RISK WEIGHTED ASSETS	MULTIPLY BY	CAPITAL REQUIREMENT
105,989,052.27	10%	10,598,905.23

8. Total and Tier 1 Capital Adequacy Ratio on both solo and consolidated bases

Total Capital Adequacy Ratio	**16.49%**
Total Tier 1 CAR	**15.88%**

Rural Bank of San Mateo (Isabela), Inc.

Financial Statements
December 31, 2022 and 2021

and

Independent Auditors' Report

Independent Auditors' Report

To the Board of Directors and Stockholders of
RURAL BANK OF SAN MATEO (ISABELA), INC.
Barangay 3, National Highway,
San Mateo, Isabela

Report on the Audits of the Financial Statements

Qualified Opinion

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

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS), and as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2 to the financial statements.

Basis for Qualified Opinion

As discussed in Note 2 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2018, except the impairment requirements of the new standard. PFRS 9 introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts.

The Bank adopted Appendix 15 of the Manual of Regulations for Banks (MORB) in assessing and measuring impairment for its credit exposures. Appendix 15 of the MORB provides arbitrary rates for provisioning which is inconsistent with PFRS 9 and thus constitutes a departure from PFRS. As of December 31, 2022 and 2021, the Bank's total allowance on credit losses on loans and other receivables amounted to ₱43.85 million and ₱37.55 million, respectively, as disclosed in Note 8. As the Bank has not implemented or assessed the impact of the ECL requirements of the PFRS 9, any adjustments to the amount of surplus, allowance for credit losses and related deferred tax assets as at December 31, 2022 and 2021 have not been determined.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of **Rural Bank of San Mateo (Isabela), Inc.** taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 30 and Revenue Regulation No. 15-2010 in Note 31 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue and are not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DIAZ MURILLO DALUPAN AND COMPANY
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until August 4, 2023
SEC Accreditation No. 0234-SEC, Group A, issued on March 17, 2022 and
valid in the audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001911-000-2022, effective until March 14, 2025

By:

Michelle Marie A. Recto
Partner
CPA Certificate No. 130623
SEC Accreditation No. 130623-SEC, Group A, issued on June 15, 2021 and
valid in the audit of 2020 to 2024 financial statements of SEC covered institutions
Tax Identification No. 291-885-209
BSP Accreditation No. 130623-BSP, Group B, issued on June 15, 2021 and
valid in the audit of 2020 to 2024 financial statements of BSP covered institutions
PTR No. 9573301, January 8, 2023, Makati City
BIR Accreditation No. 08-001911-014-2021, effective until November 25, 2024

April 17, 2023

RURAL BANK OF SAN MATEO (ISABELA), INC.
Statements of Financial Position

	As at December 31	
	2022	2021
ASSETS		
Cash and other cash items - note 6	**₱13,917,555**	₱12,132,020
Due from Banko Sentral ng Pilipinas - note 6	**27,416,454**	25,621,607
Due from other banks - note 6	**289,136,667**	282,215,822
Investment securities at amortized cost - note 7	**85,570,289**	86,643,445
Loans and other receivables - net - note 8	**629,166,387**	587,397,342
Bank premises, furnitures, fixtures and equipment - net - note 9	**27,623,013**	27,311,013
Investment properties - net - note 10	**4,856,345**	4,711,371
Deferred tax assets - note 24	**10,417,689**	9,841,750
Other assets - note 11	**14,314,430**	20,038,964
TOTAL ASSETS	**₱1,102,418,829**	₱1,055,913,334
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities - note 12	**₱914,718,852**	₱880,884,087
Deposits for stock subscription - note 14	**12,500,300**	9,481,700
Retirement benefits obligation - note 16	**3,487,281**	8,235,893
Accrued and other liabilities - note 15	**13,782,597**	8,974,770
Income tax payable	**970,363**	1,956,004
	945,459,393	909,532,454
Equity		
Capital stock - note 17	**47,500,000**	47,500,000
Surplus reserve - note 18	**13,727,630**	13,740,293
Surplus free - note 18	**95,215,746**	87,776,989
Actuarial gain (loss) on defined benefit obligation - net of tax	**516,060**	(2,636,402)
	156,959,436	146,380,880
TOTAL LIABILITIES AND EQUITY	**₱1,102,418,829**	₱1,055,913,334

(The accompanying notes are an integral part of these financial statements)

RURAL BANK OF SAN MATEO (ISABELA), INC.
Statements of Comprehensive Income

	For the Years Ended December 31	
	2022	2021
INTEREST INCOME		
Due from other banks - note 6	**₱1,311,210**	₱1,292,364
Investment securities at amortized cost - note 7	**2,899,918**	2,526,777
Loans and other receivables - note 8	**77,414,745**	73,661,133
	81,625,873	77,480,274
INTEREST EXPENSE		
Deposit liabilities - note 12	**(7,669,524)**	(7,388,474)
Bills payable - note 13	**-**	(1,333)
	(7,669,524)	(7,389,807)
NET INTEREST INCOME	**73,956,349**	70,090,467
IMPAIRMENT LOSSES - note 22	**(14,061,369)**	(17,752,036)
NET INTEREST INCOME AFTER IMPAIRMENT LOSS	**59,894,980**	52,338,431
OTHER INCOME - note 20	**11,388,696**	19,197,516
OPERATING EXPENSES - note 21	**(56,032,000)**	(54,757,462)
PROFIT BEFORE TAX	**15,251,676**	16,778,485
INCOME TAX EXPENSE - note 24	**(3,812,919)**	(5,685,734)
NET PROFIT	**11,438,757**	11,092,751
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified to profit or loss:		
Actuarial gain on defined benefit obligation - net of tax	**3,152,462**	1,525,212
NET INCOME FOR THE YEAR	**₱14,591,219**	₱12,617,963

(The accompanying notes are an integral part of these financial statements)

RURAL BANK OF SAN MATEO (ISABELA), INC.
Statements of Changes in Equity
For the Years Ended December 31, 2022 and 2021

	Capital Stock (see Note 17)	Surplus Reserve (see note 18)	Surplus Free (see note 18)	Comprehensive Income (Loss) (see note 16)	Total
Balances as at January 1, 2021	₱47,500,000	₱14,277,460	₱76,147,071	(₱4,161,614)	₱133,762,917
Reversal of appropriation	-	(537,167)	537,167	-	-
Actuarial gain for the year	-	-	-	1,525,212	1,525,212
Net income for the year	-	-	11,092,751	-	11,092,751
Balances as at December 31, 2021	₱47,500,000	₱13,740,293	₱87,776,989	(₱2,636,402)	₱146,380,880
Balances as at January 1, 2022	**₱47,500,000**	**₱13,740,293**	**₱87,776,989**	**(₱2,636,402)**	**₱146,380,880**
Transactions with owners					
Cash dividends declared	**-**	**-**	**(4,000,000)**	**-**	**(4,000,000)**
Comprehensive income					
Reversal of appropriation	**-**	**(12,663)**	**-**	**-**	**(12,663)**
Actuarial gain for the year	**-**	**-**	**-**	**3,152,462**	**3,152,462**
Net income for the year	**-**	**-**	**11,438,757**	**-**	**11,438,757**
Balances as at December 31, 2022	**₱47,500,000**	**₱13,727,630**	**₱95,215,746**	**₱516,060**	**₱156,959,436**

(The accompanying notes are an integral part of these financial statements)

RURAL BANK OF SAN MATEO (ISABELA), INC.
Statements of Cash Flow

	For the Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**₱15,251,676**	₱16,778,485
Adjutsments for:		
Interest income - notes 6 and 7	**4,211,128**	(3,819,142)
Gain from sale of BPFFE - note 9	**-**	(497)
Gain from disposal of investment properties - note 10	**(153,000)**	(677,661)
Retirement benefit expense - note 16	**2,141,114**	2,464,390
Provision for credit losses - notes 8 and 22	**14,061,369**	17,752,036
Depreciation and amortization - notes 9, 10 and 27	**2,955,610**	3,224,804
Write off of investment property and loan receivable - note 21	**-**	568,650
Interest on lease liability - note 27	**112,201**	44,537
Income before working capital changes	**38,580,098**	36,335,602
Decrease (increase) in operatimg assets:		
Loans and other receivables	**(56,211,414)**	(64,804,482)
Other assets	**5,724,534**	(16,725,003)
Increase (decrease) in operating liabilities:		
Deposit liabilities	**33,834,765**	60,125,366
Accrued and other liabilities	**2,617,011**	369,284
Cash generated from operations	**24,544,994**	15,300,767
Interest received	**(4,211,128)**	3,819,142
Income tax paid	**(6,425,321)**	(5,759,019)
Contributions paid - note 16	**(2,516,969)**	(2,220,312)
Retirement benefits paid from book reserve - note 16	**(169,475)**	(2,978,680)
Net cash generated from operating activities	**11,222,101**	8,161,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of investment securities at amortized cost - note 7	**89,985,949**	90,040,965
Acquisition of investment securities at amortized cost - note 7	**(88,912,793)**	(130,246,774)
Acquisition of BPFFE - note 9	**(591,736)**	(422,803)
Proceeds from disposal of BPFFE - note 9	**-**	501
Collections from sale of investment properties - note 10	**250,000**	1,046,354
Net cash generated from (used in) investing activities	**731,420**	(39,581,757)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of bills payable - note 13	**-**	(2,000,000)
Proceeds from deposit for stock subscription - note 14	**3,018,600**	3,980,825
Dividends paid - note 19	**(4,000,000)**	**-**
Payment of lease - note 22	**(470,894)**	(308,908)
Net cash generated from (used in) financing activities	**(1,452,294)**	1,671,917
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,501,227**	(29,747,942)

Forward

	For the Years Ended December 31	
	2022	2021
Continued		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,501,227**	(29,747,942)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash items	**12,132,020**	9,235,064
Due from Bangko Sentral ng Pilipinas	**25,621,607**	25,799,179
Due from other banks	**282,215,822**	314,683,148
	319,969,449	349,717,391
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash items	**13,917,555**	12,132,020
Due from Bangko Sentral ng Pilipinas	**27,416,454**	25,621,607
Due from other banks	**289,136,667**	282,215,822
	₱330,470,676	₱319,969,449

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱81,537,518**	₱77,518,667
Interest paid	**(8,487,942)**	(7,563,044)

(The accompanying notes are an integral part of these financial statements)

RURAL BANK OF SAN MATEO (ISABELA), INC.
Notes to Financial Statements
As at and for the Years Ended December 31, 2022 and 2021

1. CORPORATE INFORMATION

Rural Bank of San Mateo (Isabela), Inc. (the “Bank”) was incorporated and registered with the Philippine and Securities and Exchange Commission (SEC) on June 6, 1962 with Registration No. 20840. On June 11, 1962, the Bangko Sentral ng Pilipinas (BSP) granted the Bank its Certificate of Authority to operate as a financial institution.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks’ Act as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank’s product and services are traditional deposits such as regular savings deposits and certificate of time deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.

The Bank’s registered office address is located at Barangay 3, National Highway, San Mateo, Isabela. The Bank is domiciled in the Philippines.

The Bank currently has four (4) branches located as follows:

Branches	Address
Alfonso Lista Branch	Alfonso Lista, Ifugao
Luna Branch	Luna, Isabela
Ramon Branch	Ramon, Isabela
San Manuel	San Manuel, Isabela

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 17, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the following financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID-19 pandemic as follows:

(i) Staggered booking of allowance for credit losses over maximum period of five years

(ii) Exclusion of eligible loans from past due and non-performing classification until December 31, 2021

In 2020, the Bank availed the staggered booking of allowance for credit losses and the exclusion of eligible loans from past due and non-performing loans. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for impairment of its loans and receivables. The Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) that provides arbitrary rates for provisioning based on number of days past due, collaterals, and type of loan.

However, in 2021, the Bank decided to recognize all the remaining allowance for credit losses that was applied for staggered booking.

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of Preparation

The financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial statements are presented in Philippine Peso (₱), the Bank’s functional and presentation currency. All amounts are rounded to the nearest peso except when otherwise indicated.

Changes in Accounting Policies and Disclosures

Property, Plant and Equipment before Intended Use (Amendments to PAS 16). The amendments to PAS 16, Property, Plant and Equipment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments had no significant impact on the financial statements of the Bank.

Reference to the Conceptual Framework (Amendments to PFRS 3). Minor amendments were made to PFRS 3, Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets and Philippine Interpretation IFRIC 21, Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments had no significant impact on the financial statements of the Bank.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37). The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments had no significant impact on the financial statements of the Bank.

Annual Improvements to PFRS Standards 2018–2020

- *PFRS 9, Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

- *PFRS 16, Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The annual improvements are effective for annual periods beginning on or after January 1, 2022. The amendments had no significant impact on the financial statements of the Bank.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to January 1, 2022

Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The narrow-scope amendments to PAS 1, Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted.

Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2). The narrow-scope amendments PAS 1, Presentation of Financial Statements require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Further, the amendments provide several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1. The amendments are applied prospectively. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2.

Definition of Accounting Estimates (Amendments to PAS 8). The amendments to PAS 8, Accounting Policies, Changes focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.

- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

Deferred Tax Related to Assets and Liabilities arising from Single Transaction (Amendments to PAS 12). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary difference arise on initial recognition. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

Lease Liability in a Sale and Leaseback (Amendments to PFRS 16). The amendment clarifies the how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in PFRS 15 to be accounted for as a sale. The amendments to PFRS 16 specifies that, in subsequently measuring the lease liability, the seller-lessee determines 'lease payments' and 'revised lease payments' in a way that does not result in the seller-lessee recognizing any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

Noncurrent Liabilities with Covenants (Amendments to PAS 1). The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of liability. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as either current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual periods beginning on or after January 1, 2024.

Deferred effectivity

PFRS 10, Consolidated Financial Statements and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments). 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 FRSC deferred the original effective date of April 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Bank has not early adopted the previously mentioned new, amended and improved accounting standards and interpretations. The Bank continues to assess the impact of the above new, amended and improved accounting standards and interpretations that are effective subsequent to January 1, 2022 on its financial statements in the period of initial application.

Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Determination of Fair Value and Fair Value Hierarchy

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

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

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

Fair value measurement disclosures of financial and non-financial assets are presented in Note 5 to the financial statements.

'Day 1' Difference

Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Instruments

Initial recognition, measurement and classification

The Bank recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.
With the exception of receivables that do not contain a significant financing component, financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred. Receivables that do not contain a significant financing component are recognized initially at their transaction price.

The Bank classifies its financial assets as subsequently measured at amortized cost, at FVOCI and at FVPL. The classification of financial assets depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing the financial assets. The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank classifies its financial liabilities as subsequently measured at amortized cost using the EIR or at FVPL.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- 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 and interest on the principal amount outstanding.

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

As at December 31, 2022 and 2021, the Bank's cash and other cash items, due from BSP, due from other banks, loans and other receivables, investment securities at amortized cost and other assets are classified under this category as disclosed in Notes 6, 7, 8 and 11.

Cash and cash equivalents include cash and other cash items, due from BSP and due from other banks. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading.

Financial Liabilities at Amortized Cost

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

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

As at December 31, 2022 and 2021, the Bank’s deposit liabilities and accrued and other liabilities are classified under this as disclosed in Notes 12 and 15.

Amortized Cost and EIR method

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the EIR method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the EIR method for debt instruments measured subsequently at amortized cost and at FVOCI.

The EIR is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognized in the statements of comprehensive income.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment

At the end of the reporting period, the Bank assesses its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing expected credit losses (ECL) for its loans and other receivables. The Bank looks beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank’s ECL measurement, as determined by the Management, is disclosed in Note 4.

As of December 31, 2022 and 2021, the Bank was unable to assess the impact of ECL model that is in accordance with PFRS 9 due to certain limitations.

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost and subsequently carried at cost less the accumulated depreciation and any impairment in value. The initial cost of bank premises, furniture, fixtures and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location of its intended use and the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. Expenditures for additions, major improvements and renewals are capitalized.

Depreciation of bank premises, furniture, fixtures and equipment commences once the assets are available for use and computed using the straight-line basis over the estimated useful life as follows:

	In Years
Building	20
Transportation equipment	5
Furniture, fixtures and equipment	2 to 5
Leasehold improvements	Shorter between useful life of 20 years or lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Investment Properties

Investment properties comprised of land held by the bank for capital appreciation and foreclosed properties or real and other properties acquired (ROPA). These are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs.

Foreclosed properties are classified under investment properties upon either:

- Entry of judgment in case of judicial foreclosure;
- Execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or
- Notarization of the deed of dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the related loan is recognized in the statements of comprehensive income.

Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment losses. Land is subsequently measured at cost less any impairment in value.

Depreciation on depreciable investment properties is calculated on a straight-line basis over the estimated remaining useful life of 10 years.

Investment property is derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statements of comprehensive income in the period of retirement or disposal. Transfers are made to or from investment properties only when, there is a change in use. Transfer between investment property, and bank premises, furniture, fixtures and equipment does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

<u>Other Assets</u>

Other assets include prepaid assets, supplies, accounts receivables, petty cash fund and sundry debits. These are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

<u>Impairment of Non-financial Assets</u>

At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash- generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual.

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

Revenue and Expense Recognition

Revenue is recognized when or as control over distinct goods or services is transferred to the customer such as when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits from the goods or services, given that a contract with enforceable rights and obligations exists and among others, the collectability of consideration is probable taking into account the customer's creditworthiness.

Revenue recognized is the transaction price that reflects the consideration which the Bank expects to be entitled to in a contract with a customer and excludes amounts collected on behalf of third parties.

To determine whether to recognize revenue, the Bank follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

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

a. Revenues within the scope of PFRS 15

Service Fees, Commissions, and Other Income

Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability.

Gain on sale of assets

Gain on sale of assets is recognized when earned in the period of retirement or disposal.

b. Revenues outside the scope of PFRS 15

Interest income

Interest on financial instruments is recognized based on the effective interest method of accounting. The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

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

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies, (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

The Bank leases building and a land for its branches and remote server. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value items. For leases with a term of more than twelve (12) months, the Bank recognizes a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments, unless the underlying asset is of low value.

Right-of-Use Asset

At the commencement date of the lease (which is when the underlying asset is available for use), the Bank recognizes the right-of-use assets. The right-of-use asset is initially measured at costs which consist of the amount of the lease liability plus any initial direct costs incurred and payments made at or prior to commencement date less lease incentives received and estimated costs to be incurred by the lessee for restoration or dismantling of the underlying asset to be suitable to the condition required by the terms and conditions of the lease. Subsequent to commencement date, the right-of-use asset shall be measured at cost less accumulated amortization and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

The right-of-use asset is amortized using the straight-line method over the lease term as follows:

	In years
Land	20
Building	5 – 7

Lease liabilities

At the commencement date of the lease, (which is when the underlying asset is available for use), the Bank recognizes lease liabilities measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Bank shall use an incremental borrowing rate.

Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another Standard.

Lease liabilities are subsequently measured to reflect changes in the lease term, exercising of a purchase option (using a revised discount rate), amounts expected to be paid under residual value guarantees (using unchanged discount rate), or future lease payments resulting from a change or a rate used to determine those payments (using an unchanged discount rate). Such remeasurements are treated as adjustments to the right-of-use asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of equipment and other rentals (i.e., those leases that have a lease term of twelve (12) months or less from the commencement date and do not contain a purchase option). 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.

Leases with variable lease payments

The Bank recognizes payments for short-term and long-term leases with variable lease payments depending on the future revenue as expenses when incurred over the lease term.

Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including trustees and management.

a. Short-term Employee Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, bonus and incentives, directors' fees, SSS, PHIC, HDMF contributions, accumulating and vesting credit leaves and gratuity pay.

b. Retirement Benefits

The cost or providing benefits is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement benefit obligation recognized in the statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds and that have terms to maturity approximating to the terms of the related retirement benefit obligation.

The Bank recognizes immediately the following changes in the retirement benefit obligation in the statements of comprehensive income:

- Service costs comprising current service costs, gains and losses on curtailment and non-routine settlements; and
- Net interest expense or income, which is calculated by applying the discount rate to the net defined benefit liability or asset.

Remeasurements, comprising actuarial gains or losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, excluding net interest, are recognized immediately in the statements of financial position with a corresponding debit or credit to equity through "other comprehensive income" in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Bank engaged the services of an actuary to determine the amount of the Bank's retirement benefit obligation for the year ended December 31, 2022 (see Note 16).

Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Events after the Reporting Date

The Bank identifies post-year-end as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post-year-end event that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments in Applying Accounting Policies

The Bank has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

a. *Business model assessment*

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Accordingly, the Bank classifies cash and other cash items (excluding cash on hand), due from BSP, due from other banks, loans and other receivables, investment securities at amortized cost and other assets as financial assets at amortized cost since these are held solely for payments of principal and interest.

b. *Determining lease term and discount rate*

Determining Lease Term - The Bank has entered into contract of lease for land and buildings as a lessee. The Bank has exercised significant judgment in determining 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 extended or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank determined that renewal periods of leases with longer periods are not included as part of the lease term as these are not reasonably certain to be exercised.

Estimating the Incremental Borrowing Rate (IBR)- Significant management judgment was used by the Bank in determining the discount rate, whether implicit rate, if readily available or IBR, to be used in calculating the present value of right-of-use asset and lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The incremental borrowing rate used by the Bank was 7%.

c. *Distinction between investment properties and owner-occupied properties*

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

Key Sources of Estimation Uncertainties

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. *Estimating allowances for credit losses*

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

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

Based on Management's assessment, the Bank recognized provision for credit losses amounting to ₱14,061,369 and ₱17,752,036 in 2022 and 2021, respectively. The details of the allowance for credit losses on financial assets are presented in Note 22.

b. *Reviewing residual values, useful lives and depreciation method of bank's premises, furniture, fixtures and equipment, investment properties and right-of-use assets*

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, right-of-use asset and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed and updated, if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset and investment properties is based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset and investment properties would increase recorded operating expenses and decrease noncurrent assets.

In both years, Management assessed that there are no indications that there has been a significant change in pattern used by the Bank to consume its asset's future economic benefit. The carrying amount of the Bank's bank premises, furniture, fixtures and equipment, right-of-use asset and investment properties as at December 31, 2022 and 2021 amounted to ₱32,479,358 and ₱32,022,384, respectively (see Notes 9, 10 and 27).

c. *Determining impairment of non-financial asset*

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of investment properties, and bank premises, furniture, fixtures and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that investment properties and bank premises, furniture, fixtures and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

The details of allowance for impairment loss on investment properties are shown in Note 10.

d. *Determining retirement benefit obligation*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among other, discount rates, and expected salary rate increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

As of December 31, 2022 and 2021, retirement benefit obligation amounted to ₱3,487,281 and ₱8,235,893, respectively (see Note 16).

e. Recoverability of deferred tax assets

The Bank reviews the carrying amounts at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized prior to expiration.

The Bank recognized deferred tax assets amounting to ₱10,417,689 and ₱9,841,750 as at December 31, 2022 and 2021, respectively, which Management believes to be fully recoverable prior to expiration (see in Note 24).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

General Risk Management Principles

The Bank's financial assets comprise cash and other cash items, due from BSP, due from other banks, investment securities at amortized cost, loans and receivables, and other assets while financial liabilities comprise savings deposits, bills payable, accrued expenses and other liabilities to finance the Bank's operations.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	2022	2021
Financial assets measured at amortized cost:		
Cash and other cash item	**₱13,917,555**	₱12,132,020
Due from BSP	**27,416,454**	25,621,607
Due from other banks	**289,136,667**	282,215,822
Investment securities at amortized cost	**85,570,289**	86,643,445
Loans and other receivables	**629,166,387**	587,397,342
Other assets*	**3,151,657**	7,846,990
	₱1,048,359,009	₱1,001,857,226
Financial liabilities measured at amortized cost:		
Deposit liabilities	**₱914,718,852**	₱880,884,087
Accrued and other liabilities**	**10,804,133**	6,183,107
	₱925,522,985	₱887,067,194

******excluding non-financial assets amounting to ₱11,162,773 and ₱12,191,974 in 2022 and 2021, respectively.*
*******excluding government-related payables and non-financial liabilities amounting to ₱2,978,464 and ₱2,791,663 in 2022 and 2021, respectively.*

Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items

Credit risk is the risk to earnings or capital arising from a counterparty failure to perform and meet the terms of its contract with the Bank subjecting the latter to a financial loss. Credit risk may last for the entire tenor and may approximate to the full amount of a transaction and in some cases may exceed the original principal exposure.

Credit risk inherent in the lending activities and the Bank manages it in accordance with a credit risk management framework that spans for identification, measurement, control, monitoring and reporting.

To manage credit risk, the Bank conducts credit investigation and background checking and follows written manuals and procedures for loan disbursements, monitoring and collection. Policies of loan diversification like maximum loan size, types of loans, loan structures are instituted to avoid concentration in a particular sector or area to lessen portfolio risk.

The Management closely monitors the overall credit operations and acts on the identified existing and potential risks appropriately for reporting during regular meetings of the BOD.

Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	2022	2021
Cash and other cash items*	**₱614,362**	₱242,145
Due from BSP	**27,416,454**	25,621,607
Due from other banks	**289,136,667**	282,215,822
Investment securities at amortized cost	**85,570,289**	86,643,445
Loans and other receivables**	**683,608,426**	636,262,872
Other assets***	**3,151,656**	7,846,990
	₱1,089,497,854	₱1,038,832,881

*****except for cash on hand amounting to ₱13,303,193 and ₱11,889,875 in 2022 and 2021, respectively.
****gross of unamortized discount and allowance for credit losses amounting to ₱54,442,039 and ₱48,865,530 in 2022 and 2021, respectively.*
*****excluding non-financial assets amounting to ₱11,162,774 and ₱12,191,974 in 2022 and 2021, respectively.*

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as at December 31, 2022 and 2021.

2022	**Neither Past Due nor Impaired**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and other cash items*	**₱614,362**	**₱-**	**₱-**	**₱614,362**
Due from BSP	**27,416,454**	**-**	**-**	**27,416,454**
Due from other banks	**289,136,667**	**-**	**-**	**289,136,667**
Investment securities at amortized cost	**85,570,289**	**-**	**-**	**85,570,289**
Loans and other receivables**	**577,690,185**	**81,359,247**	**13,968,804**	**673,018,236**
Other assets***	**3,151,657**	**-**	**-**	**3,151,657**
	₱983,579,614	**₱81,359,247**	**₱13,968,804**	**₱1,078,907,665**

2021	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Cash and other cash items*	₱242,145	₱-	₱-	₱242,145
Due from BSP	25,621,607	-	-	25,621,607
Due from other banks	282,215,822	-	-	282,215,822
Investment securities at amortized cost	86,643,445	-	-	86,643,445
Loans and other receivables**	537,882,860	70,393,458	16,673,921	624,950,239
Other assets***	7,846,990	-	-	7,846,990
	₱940,452,869	₱70,393,458	₱16,673,921	₱1,027,520,248

**except for cash on hand amounting to ₱13,303,193 and ₱11,889,875 in 2022 and 2021, respectively.*
***gross of allowance for credit losses but net of unamortized discount amounting ₱10,590,189 and ₱11,312,633 in 2022 and 2021, respectively.*
****excluding non-financial assets amounting to ₱11,162,774 and ₱12,191,974 in 2022 and 2021, respectively.*

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other neither past due nor impaired accounts are loans and other receivables and investment securities which have a very remote likelihood of default and have consistently exhibited good paying habits.

Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Impaired loans and other receivables and investment securities are those which the Bank determines that it will probably be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and other receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired. The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

Aging Analysis

An aging analysis of the Bank's loans and other receivable, net of unamortized discount as of December 31, 2022 and 2021 are as follows:

	2022	2021
Current accounts	**₱577,690,185**	₱537,882,860
Past due accounts:		
1 – 30 days past due	**3,577,086**	2,404,359
31 – 60 days past due	**7,272,096**	10,173,950
61 – 90 days past due	**4,591,983**	831,348
over 90 days past due*	**79,886,886**	73,657,722
	₱673,018,236	₱624,950,239

**Includes items in litigation amounting to ₱1,717,160 and ₱1,215,000 in 2022 and 2021, respectively.*

Measurement of allowance for credit losses

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

Individually Assessed Loans and Other Credit Exposures

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

For unsecured loans and other credit exposures:

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

For secured loans and other credit exposures:

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

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

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

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

Classification	Minimum ACL	Stage
Especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as “Substandard” in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to “Doubtful” classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty-five percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

<u>Collectively Assessed Loans and Other Credit Exposure</u>

1. Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

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

<u>For unsecured loans and other credit exposures:</u>

No. of days unpaid/with missed payments*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/2nd restructuring	Loss	100%	3

**PAR for microfinance loans*

<u>For secured loans and other credit accommodations:</u>

No. of days unpaid/with missed payments*	Classification	ACL: Other types of collateral	ACL: Security by real estate	Stage
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

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

Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the BOD, which has established an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

On March 15, 2019, BSP circular 1035 amended the requirement of MLR of rural banks to 20%. The liquidity ratio is expressed as a percentage of the eligible stock of liquid assets to its total qualifying liabilities. As at December 31, 2022 and 2021, minimum liquidity ratio of the Bank is 58.68% and 40.68%, respectively.

The table below summarizes maturity profile of the Bank's financial assets and liabilities as at December 31, 2022 and 2021 based on undiscounted contractual cash flows.

2022	**On Demand**	**Due Within 1 Year**	**Due Beyond 1 Year but Not More Than 5 Years**	**Due Beyond 5 Year but Not More Than 15 Years**	**Total**
Financial Assets:					
Cash and other cash items	**₱13,917,555**	**₱-**	**₱-**	**₱-**	**₱13,917,555**
Due from BSP	**27,416,454**	**-**	**-**	**-**	**27,416,454**
Due from other banks	**265,342,698**	**23,793,969**	**-**	**-**	**289,136,667**
Investment securities at amortized cost	**-**	**49,570,289**	**11,000,000**	**25,000,000**	**85,570,289**
Loans and other receivables*	**36,422,472**	**203,716,098**	**378,530,432**	**54,349,234**	**673,018,236**
Other assets**	**3,151,657**	**-**	**-**	**-**	**3,151,657**
	₱346,250,836	**₱277,080,356**	**₱389,530,432**	**₱79,349,234**	**₱1,092,210,858**
Financial Liabilities:					
Deposit liabilities	**₱847,836,559**	**₱55,316,035**	**₱11,566,258**	**₱-**	**₱914,718,852**
Accrued and other liabilities***	**10,804,134**	**-**	**-**	**-**	**10,804,134**
	₱858,640,693	**₱55,316,035**	**₱11,566,258**	**₱-**	**₱925,522,986**

2021	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More Than 5 Years	Due Beyond 5 Year but Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	₱12,132,020	₱-	₱-	₱-	₱12,132,020
Due from BSP	25,621,607	-	-	-	25,621,607
Due from other banks	262,815,663	19,400,159	-	-	282,215,822
Investment securities at amortized cost	-	40,129,516	11,513,929	35,000,000	86,643,445
Loans and other receivables*	45,390,662	203,424,510	328,952,306	47,182,761	624,950,239
Other assets**	7,846,990	-	-	-	7,846,990
	₱353,806,942	₱262,954,185	₱340,466,235	₱82,182,761	₱1,039,410,123
Financial Liabilities:					
Deposit liabilities	₱817,832,441	₱63,051,645	₱-	₱-	₱880,884,086
Accrued and other liabilities***	6,183,107	-	-	-	6,183,107
	₱824,015,548	₱63,051,645	₱-	₱-	₱887,067,193

******net of unamortized loan discount amounting to ₱10,590,188 and ₱11,312,633 in 2022 and 2021 respectively.*
********excluding non-financial assets amounting to ₱11,162,773 and ₱12,191,974 in 2022 and 2021, respectively.*
*********excluding government and other nonfinancial liabilities amounting to ₱2,978,464 and ₱2,791,663 in 2022 and 2021, respectively.*

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity price risk.

The Bank's activities expose it primarily to the financial risks of changes in interest rates.

Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank's interest rate exposure management policy centers on reducing the Bank's overall interest expense and exposure to changes in interest rates.

The Bank uses the interest rates and maturity matching analysis to monitor interest rate risk as follows:

	2022 Maturity Analysis							
	On Demand	**1-7 Days**	**8-30 Days**	**31-90 Days**	**91 Days – 1 year**	**> 1-2 years**	**Over 2 years**	**Total**
Assets								
Cash and other cash items	₱13,917,555	₱-	₱-	₱-	₱-	₱-	₱-	₱13,917,555
Due from banks	289,136,667	-	-	-	-	-	-	289,136,667
Due from BSP	27,416,454	-	-	-	-	-	-	27,416,454
Investment								
Up to 4%	-	-	-	9,890,136	-	-	1,000,000	10,890,136
> 4% to 6%	-	-	-	-	30,249,642	-	44,430,511	74,680,153
> 6% to 10%	-	-	-	-	-	-	-	-
> 10% to 15%	-	-	-	-	-	-	-	-
> 15% to 20%	-	-	-	-	-	-	-	-
> 20% to 25%	-	-	-	-	-	-	-	-
Over 25%	-	-	-	-	-	-	-	-
	-	-	-	9,890,136	30,249,642	-	45,430,511	85,570,289
Loans*								
Up to 4%	-	-	-	-	-	-	-	-
> 4% to 6%	-	-	-	-	-	-	-	-
> 6% to 10%	66,942	12,083,865	5,093,662	13,428,038	50,363,765	24,651,865	191,380,887	297,069,024
> 10% to 15%	25,990,048	503,219	3,097,856	24,737,624	79,302,804	87,629,418	123,800,524	345,061,493
> 15% to 20%	4,029,986	89,068	891,000	521,594	5,674,300	4,372,399	480,617	16,058,964
> 20% to 25%	250,415	-	78,557	478,945	2,062,571	-	-	2,870,488
Over 25%	-	-	-	-	-	-	-	-
	30,337,391	12,676,151	9,161,075	39,166,201	137,403,440	116,653,682	315,662,028	661,059,969
Total	**360,808,067**	**12,676,151**	**9,161,075**	**49,056,337**	**167,653,082**	**116,653,682**	**361,092,539**	**1,077,100,934**
Liability								
Deposit liabilities								
Up to 4%	727,713,856	31,543,991	75,343,601	31,744,115	19,264,002	-	11,566,258	897,175,823
> 4% to 6%	-	-	13,235,111	-	4,307,917	-	-	17,543,028
> 6% to 10%	-	-	-	-	-	-	-	-
	727,713,856	31,543,991	88,578,712	31,744,115	23,571,919	-	11,566,258	914,718,851
Net position	**(₱366,905,789)**	**(₱18,867,840)**	**(₱79,417,637)**	**₱17,312,223**	**₱144,081,163**	**₱116,653,682**	**₱349,526,281**	**₱162,382,083**

**Gross loans, net of unamortized discount of ₱9,039,942 as of December 31, 2022*

2021 Maturity Analysis								
	On Demand	1-7 Days	8-30 Days	31-90 Days	91 Days – 1 year	> 1-2 years	Over 2 years	Total
Assets								
Cash and other cash items	₱12,132,020	₱-	₱-	₱-	₱-	₱-	₱-	₱12,132,020
Due from banks	251,517,130	7,329,449	11,596,922	7,016,883	4,721,792	-	-	282,182,176
Due from BSP	25,621,607	-	-	-	-	-	-	25,621,607
Investment								
Up to 4%	-	-	9,997,263	20,088,701	10,043,552	-	1,000,000	41,129,516
> 4% to 6%	-	-	-	-	-	10,513,929	10,000,000	20,513,929
> 6% to 10%	-	-	-	-	-	-	25,000,000	25,000,000
> 10% to 15%	-	-	-	-	-	-	-	-
> 15% to 20%	-	-	-	-	-	-	-	-
> 20% to 25%	-	-	-	-	-	-	-	-
Over 25%	-	-	-	-	-	-	-	-
	-	-	9,997,263	20,088,701	10,043,552	10,513,929	36,000,000	86,643,445
Loans*								
Up to 4%	-	-	-	-	-	-	-	-
> 4% to 6%	-	-	-	-	-	-	-	-
> 6% to 10%	2,253,206	449,206	16,506,264	21,576,829	23,420,964	24,227,316	148,277,176	236,710,961
> 10% to 15%	74,621,059	1,098,970	7,559,913	28,613,389	86,395,783	48,792,859	112,785,251	359,867,224
> 15% to 20%	5,151,614	-	524,072	340,917	5,179,295	3,711,700	35,000	14,942,598
> 20% to 25%	390,141	29,910	-	230,396	489,394	-	-	1,139,841
Over 25%	-	-	-	-	-	-	-	-
	82,416,020	1,578,086	24,590,249	50,761,531	115,485,436	76,731,875	261,097,427	612,660,624
Total	371,686,777	8,907,535	46,184,434	77,867,115	130,250,780	87,245,804	297,097,427	1,019,239,872
Liability								
Deposit liabilities								
Up to 4%	694,887,335	37,924,795	85,020,311	33,062,950	29,988,696	-	-	880,884,087
> 4% to 6%	-	-	-	-	-	-	-	-
> 6% to 10%	-	-	-	-	-	-	-	-
	694,887,335	37,924,795	85,020,311	33,062,950	29,988,696	-	-	880,884,087
Net position	(₱323,200,558)	(₱29,017,260)	(₱38,835,877)	₱44,804,165	₱100,262,084	₱87,245,804	₱297,097,427	₱138,355,785

**Gross loans, net of unamortized discount of ₱9,644,139 as of December 31, 2021*

Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility of the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas;

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
b) Requirements for the reconciliation and monitoring of transactions;
c) Compliance with regulatory and other legal requirements;
d) Documentation of controls and procedures;
e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
f) Requirements for the reporting of operational losses and proposed remedial action;
g) Development of contingency plans;

h) Training and professional development;
i) Ethical and business standards; and
j) Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

5. FAIR VALUE INFORMATION

Financial assets and liabilities not measured at fair value

The fair values of cash and other cash items, due from BSP, due from other banks, deposit liabilities, bills payable and accrued and other liabilities measured at amortized cost approximates their carrying values either because these instruments are short- term in nature or the effect of discounting for those with maturities of more than one year is not material.

The following financial assets and liabilities are not measured at fair values on recurring basis but the fair value disclosure is required:

2022	**Carrying Value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
ASSETS					
Investment securities at amortized cost	**₱85,570,289**	**₱-**	**₱85,570,289**	**₱-**	**₱85,570,289**
Loans and other receivables – net	**629,166,387**	**-**	**629,166,387**	**-**	**629,166,387**
Other assets*	**3,151,657**	**-**	**3,151,657**	**-**	**3,151,657**
	₱717,888,333	**₱-**	**₱717,888,333**	**₱-**	**₱717,888,333**
LIABILITY					
Lease liability	**₱2,666,823**		**₱2,666,823**		**₱2,666,823**

2021	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
ASSETS					
Investment securities at amortized cost	₱86,643,445	₱-	₱86,643,445	₱-	₱86,643,445
Loans and other receivables – net	587,397,342	-	587,397,342	-	587,397,342
Other assets*	7,846,990	-	7,846,990	-	7,846,990
	₱681,887,777	₱-	₱681,887,777	₱-	₱681,887,777
LIABILITY					
Lease liability	₱486,491		₱486,491		₱486,491

***excluding non-financial assets amounting to ₱11,162,773 and ₱12,191,974 in 2022 and 2021, respectively.*

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

a. *Investment securities at amortized cost* - The fair value for investment securities at amortized cost is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis. The discount rates used in 2022 and 2021 range from 1.125% to 6.125%.

b. *Loans and other receivables* - Loans and other receivables are net of provisions for probable losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the loan's interest rates ranging from 2% to 24% in 2022 and 2021.

c. *Lease liability* - The fair value of the lease liability approximates its carrying amount as it is determined based on the present value of estimated future cash flows using prevailing market rates. The discount rate used is 7% as at December 31, 2022 and 2021.

Investment property measured at cost

The fair value of investment properties with carrying amount of ₱4,856,345 and ₱4,711,371, as at December 31, 2022 and 2021, respectively, amounted to ₱21,611,757 and ₱21,925,757, which is currently categorized within Level 2. The fair value of the investment properties was arrived at using the market comparable approach through investigation and careful consideration to the extent, character and utility of the property; government assessment of real property; local government zoning system; sales and holding prices of similar land; "highest and best use" of the property and all adverse internal and external factors that may tend to affect or influence the value of the property.

There were no changes on the valuation techniques nor any transfers to other levels for the years ended December 31, 2022 and 2021.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2022	2021
Cash and other cash items:		
Cash on hand	**₱13,303,193**	₱11,889,875
Checks and other cash items	**614,362**	242,145
	13,917,555	12,132,020
Due from BSP	**27,416,454**	25,621,607
Due from other banks	**289,136,667**	282,215,822
	₱330,470,676	₱319,969,449

Cash and other cash items refer to cash on hand representing the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier, including notes and coins in the possession of tellers while checks and other cash items account refers to the total amount of checks and other cash items received after the clearing cut-off time until the close of the regular banking hours.

Due from BSP refers to the mandatory reserves representing the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Deposits with BSP does not earn interest.

Under Section 252 of the Manual of Regulation for Banks (MORB), the required reserves shall be kept in the form of deposits placed in the banks' demand deposit accounts with BSP. This further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements.

Due from other banks comprise of savings deposits with interest rates ranging from 0.1% to 0.625% and time deposits with interest rates ranging from 1% to 6%.

Section 362 of the MORB states that loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or ₱100 million, whichever is higher. Provided, that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Interest earned on deposits on local banks amounted to ₱1,311,210 and ₱1,292,364 in 2022 and 2021, respectively.

7. INVESTMENT SECURITIES AT AMORTIZED COST

The Bank has investments in debt securities classified as investment securities at amortized cost. Details are as follows:

	2022	2021
Retail treasury bonds	**₱46,649,000**	₱46,649,000
Treasury bills	**40,000,000**	40,292,000
Less: Unamortized discount	**(1,078,711)**	(297,555)
	₱85,570,289	₱86,643,445

Movements in the account are disclosed below:

	2022	2021
Balance at January 1	**₱86,643,445**	₱46,437,636
Acquisitions during the year	**88,912,793**	130,246,774
Maturities during the year	**(89,985,949)**	(90,040,965)
Balance, December 31	**₱85,570,289**	₱86,643,445

Total interest earned on these financial assets amounted to ₱2,899,918 and ₱2,526,777 for 2022 and 2021, respectively.

No impairment was recognized as of December 31, 2022 and 2021.

Under current bank regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth plus 40% of total deposits liabilities. As of December 31, 2022 and 2021, the Bank is compliant with such regulations.

8. LOANS AND OTHER RECEIVABLES (NET)

The account consists of the following:

	2022	2021
Receivable from customers:		
Small and medium enterprise	**₱360,960,611**	₱296,276,737
Agrarian reform loan	**173,310,004**	181,216,238
Other agricultural credit loans	**37,427,017**	43,405,742
Loans to individuals for housing purposes	**23,879,050**	21,394,518
Loans to individuals primarily for personal use purposes	**6,975,058**	6,373,019
Loans to individuals – other purposes	**67,548,171**	73,638,509
Total loans	**670,099,911**	622,304,763
Less: Allowance for ECL – note 22	**(40,133,873)**	(33,834,920)
Unamortized discount	**(9,039,942)**	(9,644,139)
	620,926,096	578,825,704
Other receivables:		
Sales contract receivable	**8,199,286**	8,434,286
Less: Allowance for ECL – note 22	**(3,717,977)**	(3,717,977)
Unamortized discount	**(1,550,247)**	(1,668,494)
	2,931,063	3,047,815
Accrued interest receivable	**5,309,228**	5,523,823
	₱629,166,387	₱587,397,342

Interest rates range from 2% to 24% per annum in 2022 and 2021.

The breakdown of loans by status is presented as follows:

	2022	2021
Current loans	**₱580,856,941**	₱540,940,664
Past due loans	**87,525,810**	80,149,099
Under litigation	**1,717,160**	1,215,000
	₱670,099,911	₱622,304,763

Interest income earned by the Bank from its loans and other receivables are disclosed below:

	2022	2021
Loans receivable	**₱77,296,497**	₱72,214,817
Sales contract receivable	**118,248**	1,446,316
	₱77,414,745	₱73,661,133

Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

Allowance for credit losses on loans receivables is comprised of the following:

	2022	2021
Specific loan loss	**₱34,528,431**	₱28,659,695
General loan loss	**5,605,442**	5,175,225
	₱40,133,873	₱33,834,920

The Bank applies the general approach in measuring ECLs which uses a 12-month ECL or lifetime expected loss allowance for all loans receivables. The Bank's allowance for ECL has been determined with due consideration to the BSP guidelines on loan loss provisioning.

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

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

BSP requires banks to establish specific allowance for impairment losses for classified loans and other risk assets in accordance with the following classification:

	Required allowance			
	Quantitative			
Classification	Secured	Unsecured (Individually assessed)	Unsecured (Collectively assessed)	Stage
Loans especially mentioned	5%	5%	2%	2
Substandard – secured				
Underperforming	10%	–	–	2
Non-performing	10-25%	–	–	3
Substandard – unsecured				
Underperforming	–	10%-25%	10%-25%	3
Non-performing	–	10%-25%	10%-25%	3
Doubtful	25%-50%	50%	50%	3
Loss	100%	100%	100%	3

In addition, the Bank also provides a General Loan Loss Provision (GLLP) equivalent to 1% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws, rules and regulations.

With the foregoing level of allowance for ECL, management believes that the Bank has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

Regulatory Relief

BSP Memorandum 2021-061 states that BSP-supervised financial institutions (BSFIs) are expected to conduct a comprehensive assessment of the quality of its loan portfolio before applying for the relief to book the allowance for credit losses on a staggered basis. BSFIs should assess each loan account in determining allowance for credit losses. If assessment on an individual account basis is not feasible, the assessment should be done on a collective basis or at the portfolio level. Consistent with the provisions of the Guidelines on Credit Risk Management, the propriety and adequacy of allowance for credit losses should be independently reviewed. BSFIs may apply for approval of staggered booking of allowance credit losses until March 8, 2021. Upon receipt of BSP approval, BSFIs are expected to immediately book the amount of allowance for credit losses that should be recognized in the first year of the five-year period.

a) On March 5, 2021, the Bank submitted its application for staggered booking of allowance for credit losses for a period of 2 years, on a quarterly basis until December 31, 2022. The impact of staggered booking was taken up in the 2020 financial statements as follows:

	Amount with relief	Impact of relief Increase (Decrease)	Amount without relief
Loans and other receivables	₱543,455,857	(₱3,133,679)	₱540,322,178
Allowance for credit losses – loans and other receivables	31,267,670	3,133,679	34,401,349
Provision for credit losses	4,218,881	3,133,679	7,352,560
Surplus free	76,188,762	(2,193,575)	73,995,187
Deferred tax asset	10,595,230	940,104	11,535,334
Income tax expense	4,759,427	(940,104)	3,819,323

As of December 31, 2021, the Bank recognized the full amount of the provision for credit losses that was applied for staggered booking amounting to ₱3,133,679.

b) Eligible loans excluded from past due and non-performing classification as of December 31, 2022 and 2021 as an effect of the relief amounted to nil and ₱25,308,662, respectively.

Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

BSP Manual of Regulations for Banks, Sec. 304, as amended by BSP Circular 941, defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

Non-Performing Loans

Breakdown of non-performing loans (based on BSP Circular 941) based on days outstanding are as follows:

	2022	2021
Past due accounts:		
Less than 30 days	**₱-**	₱-
30 – 60 days	**-**	-
61 – 90 days	**-**	-
91 – 180 days	**12,729,415**	16,080,938
Over 180 days	**63,263,241**	51,491,703
	₱75,992,656	₱67,572,641

As of December 31, 2022 and 2021, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2022	2021
Total Non-performing loans	**₱75,992,656**	₱67,572,641
Less: Non-performing loans covered by allowance for credit losses	**75,896,664**	67,310,683
	₱95,992	₱261,958

Information regarding the Bank's non-performing loans are as follows:

	2022	2021
Gross Non-performing loans	**₱75,992,656**	₱67,572,641
Ratio of gross NPLs to gross TLP (%)	**11.34%**	10.86%
Net non-performing loans	**₱95,992**	₱261,958
Ratio of net NPLs to gross TLP (%)	**0.01%**	0.04%
Ratio of total allowance for credit losses to gross NPLs (%)	**52.81%**	50.07%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**45.44%**	42.41%

BSP Circular 941 defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non- performing, even without 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. All other loans, even if not considered impaired, shall be considered non- performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 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.

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (NET)

A reconciliation of the carrying amounts at the beginning and end of years 2022 and 2021, and the gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment are shown below:

December 31, 2022

	Land	**Building**	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Transportation equipment**	**Subtotal**	**ROU assets – note 27**	**Total**
Cost:								
Balance, January 1	**₱5,836,879**	**₱27,767,994**	**₱2,762,854**	**₱10,587,283**	**₱9,615,407**	**₱56,570,417**	**₱1,202,194**	**₱57,772,611**
Additions	**-**	**-**	**75,000**	**516,736**	**-**	**591,736**	**2,539,025**	**3,130,761**
Write-off	**-**	**-**	**-**	**(616,400)**	**-**	**(616,400)**	**-**	**(616,400)**
Balance, December 31	**5,836,879**	**27,767,994**	**2,837,854**	**10,487,619**	**9,615,407**	**56,545,753**	**3,741,219**	**60,286,972**
Accumulated depreciation								
Balance, January 1	**-**	**9,090,417**	**2,207,146**	**9,386,763**	**9,010,928**	**29,695,254**	**766,344**	**30,461,598**
Depreciation and amortization – note 21	**-**	**1,160,320**	**171,921**	**808,698**	**287,211**	**2,428,150**	**388,434**	**2,816,584**
Write-off	**-**	**-**	**-**	**(614,223)**	**-**	**(614,223)**	**-**	**(614,223)**
Balance, December 31	**-**	**10,250,737**	**2,379,067**	**9,581,238**	**9,298,139**	**31,509,181**	**1,154,778**	**32,663,959**
Carrying amount	**₱5,836,879**	**₱17,517,257**	**₱458,787**	**₱906,381**	**₱317,268**	**₱25,036,572**	**₱2,586,441**	**₱27,623,013**

December 31, 2021

	Land	Building	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Subtotal	ROU assets – note 27	Total
Cost:								
Balance, January 1	₱5,836,879	₱27,646,782	₱2,762,854	₱14,232,711	₱9,615,407	₱60,094,633	₱1,202,194	₱61,296,827
Additions	-	121,212	-	301,591	-	422,803	-	422,803
Write-off	-	-	-	(3,886,864)	-	(3,886,864)	-	(3,886,864)
Disposal	-	-	-	(60,155)	-	(60,155)	-	(60,155)
Balance, December 31	5,836,879	27,767,994	2,762,854	10,587,283	9,615,407	56,570,417	1,202,194	57,772,611
Accumulated depreciation								
Balance, January 1	-	7,931,353	1,988,186	12,272,545	8,575,904	30,767,988	510,896	31,278,884
Depreciation and amortization – note 21	-	1,159,064	218,960	1,061,218	435,024	2,874,266	255,448	3,129,714
Write-off	-	-	-	(3,886,849)	-	(3,886,849)	-	(3,886,849)
Disposal	-	-	-	(60,151)	-	(60,151)	-	(60,151)
Balance, December 31	-	9,090,417	2,207,146	9,386,763	9,010,928	29,695,254	766,344	30,461,598
Carrying amount	₱5,836,879	₱18,677,577	₱555,708	₱1,200,520	₱604,479	₱26,875,163	₱435,850	₱27,311,013

Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as at December 31, 2022 and 2021.

Depreciation and amortization are recognized under operating expenses in the statements of comprehensive income.

In 2021, the Bank sold bank premises, furniture, fixtures and equipment for a total consideration of ₱501 resulting to a gain on sale amounting to ₱497 (see Note 20).

No bank premises, furniture, fixture and equipment were used as collateral for liabilities as at December 31, 2022 and 2021.

As of December 31, 2022 and 2021, the Bank has no commitment to purchase bank premises, furniture, fixture and equipment.

Section 109 of the MORB states that the total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. As of December 31, 2022 and 2021, the Bank is compliant with such regulation.

10. INVESTMENT PROPERTIES (NET)

This account pertains to real properties, such as land, held by the bank for capital appreciation. The account also includes real properties foreclosed from delinquent borrowers which are held for capital appreciation.

Details of the Bank's investment properties are as follows:

2022	**Land**	**Building**	**Total**
Cost:			
Balance, January 1	**₱4,741,614**	**₱1,461,017**	**₱6,202,631**
Additions	**127,885**	**204,615**	**332,500**
Disposals	**(97,000)**	**-**	**(97,000)**
Balance, December 31	**4,772,499**	**1,665,632**	**6,438,131**
Accumulated depreciation:			
Balance, January 1	**-**	**126,066**	**126,066**
Depreciation – note 23	**-**	**139,026**	**139,026**
Balance, December 31	**-**	**265,092**	**265,092**
Allowance for impairment loss:	**1,113,220**	**203,474**	**1,316,694**
	₱3,659,279	**₱1,197,066**	**₱4,856,345**

2021	Land	Building	Total
Cost:			
Balance, January 1	₱4,093,720	₱720,960	₱4,814,680
Additions	2,130,682	1,149,401	3,280,083
Disposals	(1,025,278)	(409,344)	(1,434,622)
Write-off	(457,510)	-	(457,510)
Balance, December 31	4,741,614	1,461,017	6,202,631
Accumulated depreciation:			
Balance, January 1	-	98,572	98,572
Depreciation – note 23	-	95,090	95,090
Disposal	-	(67,596)	(67,596)
Balance, December 31	-	126,066	126,066
Allowance for impairment loss:	1,161,720	203,474	1,365,194
	₱3,579,894	₱1,131,477	₱4,711,371

The movement of allowance for impairment loss is as follows:

	2022	2021
Balance, January 1	**₱1,365,194**	₱2,083,280
Disposals/Reversals	**(48,500)**	(718,086)
	₱1,316,694	₱1,365,194

In 2022 and 2021 the Bank disposed certain investment properties with carrying amount of ₱97,000 and ₱207,706 for cash proceeds of ₱250,000 and ₱457,916, realizing a gain of ₱153,000 and ₱250,210, respectively (see Note 20).

In 2021, certain investment properties with carrying amount of ₱1,159,321 were sold through sales contract at selling price of ₱1,950,000, gross of unamortized discount amounting to ₱363,228, realizing a gain of ₱427,451 (see Note 20). Out of the total selling price, ₱588,438 were collected in 2021 while the remaining balance of ₱998,333 was included as part of sales contract receivable.

The Bank acquired its investment from foreclosure of properties. In 2022 and 2021, transaction costs amounting to ₱1,049,678 and ₱520,636, respectively, were incurred in relation to foreclosure of properties.

The fair value of unimpaired investment properties with carrying amount of ₱4,856,345 and ₱4,711,371, as of December 31, 2022 and 2021, respectively amounted to ₱21,611,757 and ₱21,925,757, is currently categorized within Level 2.

Real estate taxes related to the investment properties amounted to ₱223,032 and ₱37,335 in 2022 and 2021, respectively, and are included in taxes and licenses under operating expenses in the statement of comprehensive income.

No amount of investment properties of the Bank has been pledged to secure general banking facilities granted to the Bank.

11. OTHER ASSETS

This account consists of:

	2022	2021
Sundry debits	**₱8,869,524**	₱10,145,258
Accounts receivable	**2,917,413**	9,112,746
Stationery and supplies on hand	**1,255,308**	1,051,580
Security deposits	**450,000**	450,000
Rental deposit	**65,052**	65,052
Petty cash fund	**9,000**	9,000
Miscellaneous assets	**963,889**	921,084
	14,530,186	21,754,720
Less: Allowance for credit losses – note 22	**215,756**	1,715,756
	₱14,314,430	₱20,038,964

Sundry debits represent various ATM transactions of the Bank which are not yet received as of the cut-off date. Security deposit pertains to services package subscription for automated teller machine with a term of one year.

12. DEPOSIT LIABILITIES

This account consists of:

	2022	2021
Savings deposits	**₱757,611,209**	₱717,499,534
Demand deposits	**157,107,643**	163,384,553
	₱914,718,852	₱880,884,087

Savings earn annual interest rate of 0.50%. Time deposits earn annual interest rate of 1.5% to 4% in 2022 and 2021.

Total interest expense on deposit liabilities amounted to ₱7,669,524 and ₱7,388,474 in 2022 and 2021, respectively. Accrued interest on deposit liabilities amounted to ₱626,995 and ₱1,445,413 as at December 31, 2022 and 2021, respectively (see Note 15).

Liquidity and statutory reserve

Per BSP Circular No. 1092, the rates of required reserves against deposits and deposit substitute in local currency of rural banks effective July 31, 2020 shall be 2% for demand deposits and 2% for savings deposits.

The Bank's Due from BSP as compared with the reserve requirement is shown below:

	2022	2021
Due from BSP	**₱27,416,454**	₱25,621,607
Less: 2% reserve requirement	**18,294,377**	17,617,682
Excess	**₱9,122,077**	₱8,003,925

The Bank is compliant with the BSP reserve requirement as of December 31, 2022 and 2021.

13. BILLS PAYABLE

On December 31, 2017, the Bank availed rediscounting facilities of Land Bank of the Philippines at 4.5% per annum. In 2021, the Bank already settled the outstanding balance of ₱2,000,000.

Interest expense on bills payable for the years ended December 31, 2022 and 2021 amounted to nil and ₱1,333, respectively.

14. DEPOSIT FOR FUTURE STOCKS SUBSCRIPTIONS

In 2019, the Bank received cash from stockholders which the Bank recognized as deposit for future stocks subscription under liabilities in the statement of financial position since, the requirements under paragraph 11 of PAS 32 and Financial Reporting Bulletin No. 6 – 2012, as amended, were not met for it to be recognized as equity.

The Bank signified its intent to increase its capitalization through a Regular Stockholders Meeting held on March 17, 2022 and a Special Stockholders Meeting held on November 24, 2022 wherein the Stockholders has approved an increase of authorized shares to 1,000,000 with par value of ₱100, divided into 975,000 common shares and 25,000 preferred shares. As of December 31, 2022, the Bank is waiting for the approval of the BSP on its application for amendments to articles of incorporation before submitting its application to SEC.

In 2022 and 2021, additional subscription amounting to ₱3,018,600 and ₱3,980,825 was received, respectively. The balance of deposit for stocks subscription as of December 31, 2022 and 2021 amounted to ₱12,500,300 and ₱9,481,700, respectively.

15. ACCRUED AND OTHER LIABILITIES

This account consists of:

	2022	2021
Accrued expenses	**₱2,994,326**	₱3,062,732
Accounts payable	**4,515,990**	1,188,471
Lease liability – note 27	**2,666,823**	486,491
Deposit for redemption	**921,000**	911,000
Accrued interest expense – note 12	**626,995**	1,445,413
Due to Treasurer of the Philippines	**340,485**	340,485
Withholding tax payable	**315,350**	318,863
SSS, Philhealth and HDMF contribution	**186,054**	187,264
Due to Philippine Crop Insurance Corporation	**106,474**	106,474
Sundry credit	**1,109,100**	927,577
	₱13,782,597	₱8,974,770

Accrued expenses include accrual of salaries and employee benefits, professional fees and utilities.

Accounts payable represents various expenses incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations such as insurance, notarial and others which still outstanding at the cut-off/reporting date.

Sundry credits represent various ATM transactions of the Bank which are not yet settled as of the cut-off date.

16. RETIREMENT BENEFIT OBLIGATION

The Bank has a funded and non-contributory defined benefit plan covering all regular and full-time permanent employees. Benefits are based on the employee’s years of service and final plan salary. The fund is administered by a trustee bank. The retirement plan meets the minimum retirement benefit specified under RA No. 7641, The Philippine Retirement Pay Law. The present value of the retirement liability under the plan is measured in terms of actuarial assumptions of mortality, investment yield and salary increase rates. The present value of the retirement benefit obligation, and the related current service cost and past service costs were measured using the projected unit credit method.

Actuarial valuations are made every year to update the retirement benefit obligation or more frequently if factors indicate a material change in the assumptions.

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

The assumptions used to determine retirement benefits of the Bank are as follows:

	2022	2021
Discount rate	**7.22%**	5.01%
Salary rate increase	**3.00%**	3.00%

The amount of retirement benefit obligation recognized in the statements of financial position as of December 31, 2022 and 2021 are determined as follows:

	2022	2021
Present value of defined benefit obligation	**₱18,782,535**	₱21,811,042
Fair value of plan assets	**(15,295,254)**	(13,575,149)
Present value of unfunded obligation	**₱3,487,281**	₱8,235,893

Movements in the present value of unfunded obligation for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance as at January 1	**₱8,235,893**	₱13,004,111
Retirement benefits cost in profit or loss	**2,141,114**	2,464,390
Remeasurement gain in OCI	**(4,203,282)**	(2,033,616)
Contributions	**(2,516,969)**	(2,220,312)
Benefits paid directly from book reserve	**(169,475)**	(2,978,680)
Balance as at December 31	**₱3,487,281**	₱8,235,893

Movements in the present value of the defined benefit obligation for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance, January 1	**₱21,811,042**	₱25,143,341
Current service cost	**1,744,069**	1,963,758
Interest expense	**1,092,733**	1,000,705
Benefits paid directly from book reserve	**(169,475)**	(2,978,680)
Benefits paid from plan asset	**(1,895,302)**	(1,369,493)
Actuarial gain – changes in financial assumptions	**(5,179,225)**	(2,947,657)
Actuarial loss – experience	**1,378,693**	1,000,327
Actuarial gain – changes in demographic assumptions	**-**	(1,259)
Balance, December 31	**₱18,782,535**	₱21,811,042

Movements in fair value of plan assets for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance, January 1	**₱13,575,149**	₱12,139,230
Contributions	**2,516,969**	2,220,312
Interest income	**695,688**	500,073
Benefits paid from plan asset	**(1,895,302)**	(1,369,493)
Remeasurement gain – return on plan assets	**402,750**	85,027
Balance, December 31	**₱15,295,254**	₱13,575,149

Retirement benefit expense recognized in profit or loss is as follows (see Note 21):

	2022	2021
Current service cost	**₱1,744,069**	₱1,963,758
Interest on defined benefit obligation	**1,092,733**	1,000,705
Interest income on plan assets	**(695,688)**	(500,073)
	₱2,141,114	₱2,464,390

Amounts recognized in other comprehensive income (OCI) in respect of these retirement benefit plans are as follows:

	2022	2021
Actuarial (gain) loss – DBO	**(₱3,800,532)**	(₱1,948,589)
Remeasurement (gain) loss – plan assets	**(402,750)**	(85,027)
Defined benefit cost in OCI – expense	**(₱4,203,282)**	(₱2,033,616)

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

Cumulative (gain) loss recognized in other comprehensive income (OCI) – net of tax are as follows:

	2022	2021
Beginning balance	**₱2,636,402**	₱4,161,614
Actuarial (gain) loss – DBO	**(3,800,532)**	(1,948,589)
Remeasurement (gain) loss – plan assets	**(402,750)**	(85,027)
Deferred tax effect	**1,050,821**	508,404
Cumulative actuarial loss – net of tax	**₱516,059**	₱2,636,402

Allocation of plan assets (%) is as follow:

	2022	2021
Cash and cash equivalents	**0.07%**	0.05%
Equity instruments	**0.00%**	0.00%
Debt instruments – government bonds	**50.78%**	58.27%
Debt instruments – other bonds	**5.23%**	2.19%
Unit investment trust funds	**38.46%**	36.71%
Other	**-1.49%**	2.78%
Total	**100%**	100%

The Retirement Trust Fund assets are valued by the fund manager at fair value using market-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

Expected contribution to the fund in the next financial year is as follow:

	2022	2021
Expected contribution in the next financial year	**₱2,516,969**	₱2,400,000

Maturity analysis: 10-year projection of expected future benefits payments is as follow:

	2022	2021
Year 1	**₱379,420**	₱885,999
Year 2	**3,208,851**	364,905
Year 3	**1,174,904**	3,210,774
Year 4	**443,170**	1,102,084
Year 5	**522,045**	426,203
Year 6 – 10	**14,609,593**	14,460,695

Below shows the sensitivity analysis determined based on reasonably possible changes of each significant assumptions stated above, assuming all other assumptions were held constant:

Principal assumptions	Increase/Decrease in assumption	Impact on retirement benefit obligation 2022	2021
Discount rate	+1%	**(₱1,776,203)**	(₱2,378,473)
	-1%	**2,097,673**	2,853,497
Salary increase rate	+1%	**2,168,542**	2,883,918
	-1%	**(1,859,636)**	(2,442,482)

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

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

Through its defined benefit retirement plan, the Bank is exposed to a number of risks, the most significant of which are as follows:

a. Asset volatility – The plan liabilities are calculated using a discount rate set with reference to government bonds, if plan assets underperformed this yield, this will create a deficit. Most of the assets of the plan are equities, which are expected to outperform government bonds in the long-term while providing volatility and risk in the short-term.

b. Changes in bond yield – A decrease in government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

17. CAPITAL STOCK

Preferred Stock

Shown below are the details on preferred stock:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**25,000**	**₱2,500,000**	25,000	₱2,500,000

The preference share capital of the Bank gives priority in the distribution of the assets of the Bank in case of liquidation. As to dividends, preferred shares are entitled to receive dividends on the said shares to the extent agreed upon before any dividends at all are paid to ordinary shareholders. Preferred shares are non-cumulative and non-participating. As to voting rights, preference shareholders are not entitled to vote in the normal course of business and decision making of the Bank except as those provided in Section X of the Corporation Code of the Philippines. No preference shares were issued as of December 31, 2022 and 2021. Preferred share shall be issued only against government investment in the capital stock of the Bank.

Common Stock

Shown below are the details on the movement of common stock:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**475,000**	**₱47,500,000**	475,000	₱47,500,000
Issued and fully paid at ₱100 par value	**475,000**	**₱47,500,000**	475,000	₱47,500,000

Ordinary shares carry one (1) vote per share and a right to dividends.

Capital Management

The primary objectives of the Bank's capital management are to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk-taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to shareholders.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) deferred tax asset;
(d) goodwill, if any;
(e) sinking fund for redemption of redeemable preferred stock; and
(f) other regulatory deductions.

Risk assets consists 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 Monetary Board of the BSP.

As of December 31, 2022 and 2021, the Bank is in compliance with the current banking regulation.

The regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock
   ii. surplus,
   iii. surplus reserves, and
   iv. undivided profits

   Subject to deductions for:
   i. deferred income tax

b. Tier 2 Capital includes:
   i. general loan loss provision

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

Information regarding the Bank's "unimpaired capital" as of December 31, 2022 and 2021 is shown below.

	2022	2021
Core Tier 1 Capital – gross	**₱156,443,376**	₱147,591,179
Less: Regulatory adjustments to Core Tier 1	**10,417,690**	10,595,232
Core Tier 1 Capital – net	**146,025,686**	136,995,947
Add: Hybrid Tier 1	**-**	-
Tier 1 Capital	**146,025,686**	136,995,947
Tier 2 Capital	**5,605,441**	5,175,226
Total qualifying capital	**₱151,631,127**	₱142,171,173
Total risk-weighted assets	**₱919,464,613**	₱903,061,041
Tier 1 capital ratio	**15.88%**	15.17%
Total capital adequacy ratio	**16.49%**	15.74%

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2021 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk- weighted assets.

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as total capital over total assets, is 14.24% and 13.84%, as of December 31, 2022 and 2021, respectively.

18. SURPLUS

Surplus – Free

The table below shows the retained earnings free for the year:

	2022	2021
Retained earnings – free, beginning, as restated	**₱87,776,989**	₱76,147,071
Profit	**11,438,757**	11,092,751
Reversal of appropriation	**-**	537,167
Cash dividends declared and paid – note 19	**(4,000,000)**	-
Balance, December 31	**₱95,215,746**	₱87,776,989

The Bank's retained earnings is not subject and is exempt from the provision of improperly accumulated earnings tax as provided under Section 29 of National Internal Revenue Code of the Philippines and as implemented by Revenue Regulation No. 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

Surplus – Reserves

The surplus reserves pertain to reserve set aside by Bank for contingencies and corporate responsibilities for the next five (5) years.

The movements in surplus reserves are as follows:

	2022	2021
Surplus reserves, beginning	**₱13,740,293**	₱14,277,460
Reversal of appropriation	**(12,663)**	(537,167)
	₱13,727,630	₱13,740,293

The reversal of appropriation in 2022 and 2021 pertained to payment of rapid antigen test and donations to areas affected by typhoons and expenditures related to COVID-19 health measures.

19. DIVIDENDS DECLARED

Under Section 124 of the MORB, the liability for dividends declared shall be taken up in the bank's books upon its declaration. However, for dividend declarations that are subject to prior BSP verification, the liability for dividends declared shall be taken up in the bank's books upon receipt of BSP's advice thereof. A memorandum entry may be made to record the dividend declaration on the date of approval by the board of directors.

On February 23, 2022, the Bank, through Board Resolution No. RBM20220223-03, declared cash dividend amounting to ₱4,000,000 to its ordinary shareholders on record as of December 31, 2021. This was also paid in 2022.

20. OTHER INCOME

This account consists of the following:

	2022	2021
Recovery on charged-off assets	**₱9,605,120**	₱9,562,335
Service charge	**672,963**	519,093
Gain from disposal of investment properties – note 10	**153,000**	677,661
Payment services	**129,751**	117,188
Intermediation services	**122,725**	84,895
Gain from sale of BPFFE – note 9	**-**	497
Miscellaneous income	**705,137**	8,235,847
	₱11,388,696	₱19,197,516

Recovery on charged off assets pertains to recoveries from previously written-off accounts and those accounts with allowance for losses.

Miscellaneous income pertains to filing fees and income from bills payments.

21. OPERATING EXPENSES

Details of operating expenses are shown below:

	2022	2021
Compensation and fringe benefits	**₱29,034,353**	₱28,230,372
Taxes and licenses	**6,608,297**	7,482,528
Depreciation and amortization – note 23	**2,955,610**	3,224,804
Insurance	**2,351,779**	2,264,336
Power, light and water	**1,565,908**	1,158,225
Security, messengerial and janitorial services	**1,504,937**	1,597,290
Fuel and lubricants	**1,474,292**	1,081,590
Litigation expense	**1,272,711**	765,711
Travel expense	**1,220,340**	329,960
Information technology expense	**1,181,853**	1,336,901
Representation and entertainment	**919,700**	904,612
Management and other professional fees	**670,333**	598,613
Postage, telephone, cable and telegrams	**575,733**	512,537
Advertising and publicity	**468,838**	394,834
Repairs and maintenance expense	**457,649**	565,996
Stationery and supplies used	**456,685**	352,553
Supervision fees	**173,203**	161,372
Donation and charitable contributions	**119,030**	93,566
Interest on lease liability – note 27	**112,201**	44,538
Membership fees and dues	**102,211**	28,561
Fines and penalties	**11,050**	666,348
Write-off – notes 10 and 22	**-**	568,650
Miscellaneous expense	**2,795,287**	2,393,565
	₱56,032,000	₱54,757,462

Miscellaneous expense pertains to expenses incurred in staff trainings, meetings and conferences, auxiliary collection fees, team building and other expenses.

Compensation and fringe benefits consists of:

	2022	2021
Salaries and wages	**₱19,606,396**	₱18,791,994
Other fringe benefits	**3,886,319**	3,743,774
Retirement benefits – note 16	**2,141,114**	2,464,390
Government contributions	**1,860,524**	1,670,214
Directors' fee	**1,540,000**	1,560,000
	₱29,034,353	₱28,230,372

22. ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is comprised of the following:

2022	**Loans and receivables**	**Sales contract receivables**	**Accounts receivable**	**Total**
Balance, January 1	**₱33,834,920**	**₱3,717,977**	**₱1,715,756**	**₱39,268,653**
Provision	**14,061,369**	-	-	**14,061,369**
Write-off	**(1,166,782)**	-	-	**(1,166,782)**
Reversal	**(6,263,134)**	-	**(1,500,000)**	**(7,763,134)**
Transfer	**(332,500)**	-	-	**(332,500)**
Balance, December 31	**₱40,133,873**	**₱3,717,977**	**₱215,756**	**₱44,067,606**

2021	Loans and receivables	Sales contract receivables	Accounts receivable	Total
Balance, January 1	₱27,549,693	₱3,717,977	₱1,715,756	₱32,983,426
Provision	17,752,036	-	-	17,752,036
Write-off – note 21	(111,140)	-	-	(111,140)
Reversal	(8,155,669)	-	-	(8,155,669)
Transfer	(3,200,000)	-	-	(3,200,000)
Balance, December 31	₱33,834,920	₱3,717,977	₱1,715,756	₱39,268,653

23. DEPRECIATION AND AMORTIZATION

Breakdown of depreciation and amortization is as follows:

	2022	2021
Bank premises, furniture, fixtures and equipment - note 9	**₱2,428,150**	₱2,874,266
Right of use of assets - note 9	**388,434**	255,448
Investment properties - note 10	**139,026**	95,090
	₱2,955,610	₱3,224,804

24. INCOME TAX

Under Philippine tax laws, the bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

The major components of income tax expense for the years ended December 31 are as follows:

	2022	2021
Current income tax	**₱4,597,454**	₱4,658,958
Final tax	**842,226**	763,828
Deferred tax expense (benefit)	**(1,626,761)**	262,948
	₱3,812,919	₱5,685,734

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

	2022	2021
Income before income tax	**₱15,251,676**	₱16,778,485
Tax expense at 25%	**3,812,919**	4,194,621
Tax effect of:		
Interest income subject to final tax	**(1,052,782)**	(954,785)
Effect of change in tax rate on temporary differences	**-**	1,768,850
Disallowed interest expense	**210,556**	190,957
Impact of CREATE law on current tax	**-**	(415,215)
Non-deductible expense	**-**	137,478
	₱2,970,693	₱4,921,906
Final tax	**842,226**	763,828
	₱3,812,919	₱5,685,734

The Bank's deferred tax assets, net of deferred tax liability as of December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets		
Allowance for credit losses	**₱9,332,549**	₱7,770,116
Retirement benefit obligation	**871,820**	2,058,973
Excess contribution to retirement fund over current service cost	**193,225**	-
Lease liability	**666,706**	121,623
	11,064,300	9,950,712
Deferred tax liability		
Right of use asset	**(646,611)**	(108,962)
Net	**₱10,417,689**	₱9,841,750

Management believes that the Bank will generate income in the future to which they can fully utilize the deferred tax assets. Total unrecognized deferred tax asset on allowance for credit losses related to year 2018 and below amounted to ₱3,826,015.

25. RELATED PARTY TRANSACTIONS

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 substantially on the terms as with other individuals and businesses of comparable risks.

a. DOSRI Loans

The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

- 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 his 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 a 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.

As of December 31, 2022 and 2021, the Bank has DOSRI loans amounting to ₱1,434,310 and ₱1,768,969, respectively.

b. Deposit liabilities

Deposit liabilities from the Bank's related parties, which include stockholders, amounted to ₱9,514,311 and ₱16,313,509 as at December 31, 2022 and 2021, respectively. These are subject to normal banking terms and conditions and are insured by PDIC up to ₱500,000 per depositor. The Bank incurs interest expense ranging from 0.25% to 0.5% per annum in 2022 and 2021, respectively.

c. Deposit for future stocks subscription

The Bank has deposit for stocks subscription from its stockholders amounting to ₱12,500,300 and ₱9,481,700 as of December 31, 2022 and 2021, respectively (see Note 14).

d. Lease of office space

The Bank leases a lot and storage space from an officer for a monthly rental ranging from ₱5,000 - ₱12,000 (see Note 27). The lease is generally payable in cash on a monthly basis.

e. Remuneration of key management personnel

The remuneration of key management consists of:

	2022	2021
Short-term employee benefits	**₱16,821,705**	₱16,639,513
Post-employment benefits	**2,516,969**	2,220,312
	₱19,338,674	₱18,859,825

26. NOTES TO STATEMENT OF CASH FLOWS – RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2022 and 2021.

2022	**January 1, 2022**	**Cash flows**	**Non-cash changes**	**December 31, 2022**
Deposit for stock subscription	**₱9,481,700**	**₱3,018,600**	**₱-**	**₱12,500,300**
Lease liability	**486,491**	**(470,894)**	**2,651,226**	**2,666,823**
Total liabilities from financing activities	**₱9,968,191**	**₱2,547,706**	**₱2,651,226**	**₱12,500,300**

2021	January 1, 2021	Cash flows	Non-cash changes	December 31, 2021
Bills payable	₱2,000,000	(₱2,000,000)	₱ -	₱ -
Deposit for stock Subscription	5,500,875	3,980,825	-	9,481,700
Lease liability	750,862	(308,908)	44,537	486,491
Total liabilities from financing activities	₱8,251,737	₱1,671,917	₱44,537	₱9,968,191

27. LEASES

The Bank entered into various long-term leases for office/bank premise and storage space ranging from 5 to 20 years for monthly rent ranging from ₱2,500 to ₱22,000.

Security deposit for rent amounted to ₱450,000 as of December 31, 2022 and 2021.

In 2022, the ROU asset recognized under PFRS 16 is presented as part of Bank premises, furniture, fixtures and equipment (net) (see Note 9). The 2021 presentation of ROU asset, which was a separate line item in the statements of financial position, was revised to match the 2022 presentation for consistency.

Lease Liability

The movement in lease liabilities as at December 31 is as follows:

	2022	2021
Beginning balance	**₱486,491**	₱750,862
Additions during the year	**2,539,025**	-
Interest expense – note 21	**112,201**	44,537
Payments	**(470,894)**	(308,908)
Ending balance	**₱2,666,823**	₱486,491

Lease liability is presented as part of Accrued and other liabilities account in the statements of financial position (see Note 15)

The Bank had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2022	2021
Not later than one year	**₱578,495**	₱160,355
Later than one year but not later than five years	**2,556,167**	196,205
Later than five years	**118,000**	38,001
	₱3,252,662	₱394,561

28. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of the Bank's operations, there are various outstanding commitments to extend credit, which are not reflected in the Banking financial statements. Management does not anticipate material losses from these commitments.

The Bank filed several legal actions against loan borrowers who defaulted in payment on their outstanding loan balance. Management believes that those actions will yield positive result in favor of the Bank and does not anticipate material losses.

29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

December 31, 2022	**Less than 12 months**	**Over 12 months**	**Total**
Assets			
Cash and other cash items	₱13,917,555	₱-	₱13,917,555
Due from BSP	27,416,454	-	27,416,454
Due from other banks	289,136,667	-	289,136,667
Loans and other receivables	236,420,593	392,745,794	629,166,387
Investment securities at amortized cost	49,570,289	36,000,000	85,570,289
Bank premises, furniture, fixtures and equipment (net)	-	27,623,013	27,623,013
Investment properties (net)	-	4,856,345	4,856,345
Deferred tax assets (net)	-	10,417,689	10,417,689
Other assets	14,314,430	-	14,314,430
Total assets	₱630,775,988	₱471,642,841	₱1,102,418,829
Liabilities			
Deposit liabilities	₱914,718,852	₱-	₱914,718,852
Deposits for stock subscription	-	12,500,300	12,500,300
Retirement benefits obligation	-	3,487,281	3,487,281
Accrued and other liabilities	13,782,597	-	13,782,597
Income tax payable	970,363	-	970,363
Total liabilities	₱929,471,813	₱15,987,581	₱945,459,393

December 31, 2021	Less than 12 months	Over 12 months	Total
Assets			
Cash and other cash items	₱12,132,020	₱-	₱12,132,020
Due from BSP	25,621,607	-	25,621,607
Due from other banks	282,215,822	-	282,215,822
Loans and other receivables	221,197,538	366,199,804	587,397,342
Investment securities at amortized cost	40,129,516	46,513,929	86,643,445
Bank premises, furniture, fixtures and equipment (net)	-	26,875,163	26,875,163
Right-of-use assets (net)	-	435,850	435,850
Investment properties (net)	-	4,711,371	4,711,371
Deferred tax assets (net)	-	9,841,750	9,841,750
Other assets	20,038,964	-	20,038,964
Total assets	₱601,335,467	₱454,577,867	₱1,055,913,334
Liabilities			
Deposit liabilities	₱880,884,087	₱-	₱880,884,087
Deposits for stock subscription	-	9,481,700	9,481,700
Retirement benefits obligation	-	8,235,893	8,235,893
Accrued and other liabilities	8,974,770	-	8,974,770
Income tax payable	1,956,004	-	1,956,004
Total liabilities	₱891,814,861	₱18,027,918	₱909,532,454

30. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2021, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

(a) Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	2022	2021
Return on average equity		
= $\frac{\text{Net income after tax}}{\text{Average total capital accounts}}$	**7.54%**	7.92%
Return on average assets		
= $\frac{\text{Net income after tax}}{\text{Average total assets}}$	**1.06%**	1.09%
Net interest margin		
= $\frac{\text{Net interest income}}{\text{Average interest earning assets}}$	**7.55%**	7.53%

(b) Capital Instruments Issued

Summarized below are the capital instruments issued by the Bank as of the end of the reporting periods. The significant information related to each instrument are described in more detail in Note 17.

	2022	2021
Common stock	**₱47,500,000**	₱47,500,000
Preferred share	**-**	-

(c) Significant Credit Exposures

Disclosures as to industry/economic sector are as follows (net of unamortized discount):

	2022		2021	
	Peso Amount	**%**	Peso Amount	%
Agricultural, forestry and fishing	**₱240,374,947**	**36.36%**	₱256,572,004	41.88%
Wholesale and retail trade; repair of motor vehicles and motorcycles	**194,324,551**	**29.40%**	167,387,664	27.32%
Construction	**56,238,048**	**8.51%**	31,318,418	5.11%
Real estate activities	**55,187,589**	**8.35%**	50,962,824	8.32%
Transportation and storage	**36,895,848**	**5.58%**	21,405,871	3.49%
Activities of Household as Employees; Undifferentiated Goods-and-Services-Producing Activities of Households for Own Use	**32,719,987**	**4.95%**	35,428,077	5.78%
Accommodation and food service Activities	**13,699,905**	**2.07%**	15,927,537	2.60%
Information and communication	**9,081,422**	**1.37%**	5,384,916	0.88%
Education	**7,079,801**	**1.07%**	8,384,237	1.37%
Professional, scientific and technical Activities	**5,190,158**	**0.79%**	4,272,589	0.70%
Mining and Quarrying	**3,849,116**	**0.58%**	4,505,149	0.74%
Manufacturing	**2,388,249**	**0.36%**	4,379,871	0.71%
Financial and insurance activities	**684,950**	**0.10%**	1,051,245	0.17%
Electricity, gas, steam and air-conditioning supply	**646,547**	**0.10%**	1,427,555	0.23%
Administrative and support service activities	**160,053**	**0.02%**	349,217	0.06%
Human health and social work activities	**148,059**	**0.02%**	291,136	0.05%
Other service activities	**2,390,739**	**0.36%**	3,609,168	0.59%
Total	**₱661,059,969**	**100%**	₱612,657,478	100%

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital which is equivalent to ₱14,427,358 and ₱13,699,595, as of December 31, 2022 and 2021, respectively.

The Bank is exposed to credit risk concentration on agricultural, forestry and fishing and wholesale and retail trade; repair of motor vehicles and motorcycles amounting to 36.36% and 29.40% of the total loan portfolio, respectively for 2022, and 41.88% and 27.32%, respectively for 2021. The Bank is also exposed to credit risk concentration on agricultural, forestry and fishing, wholesale and retail trade; repair of motor vehicles and motorcycles, construction, real estate activities, accommodation and food service activities, transportation and storage, education, information and communication, for household consumption and other service activities amounting to more than 10% of Tier 1 Capital.

(d) Information on Related Party Loans

As of December 31, 2022 and 2021, the Bank's DOSRI loans are as follows;

2022	DOSRI Loans	Related Party Loans (Inclusive of DOSRI Loans)
Outstanding loans	₱1,434,310	₱1,434,310
Percent of DOSRI/Related Party loans to total loan portfolio	.21%	.21%
Percent of unsecured DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%
Percent of past due DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%
Percent of nonperforming DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%

2021	DOSRI Loans	Related Party Loans (Inclusive of DOSRI Loans)
Outstanding loans	₱1,768,969	₱1,768,969
Percent of DOSRI/Related Party loans to total loan portfolio	.23%	.23%
Percent of unsecured DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%
Percent of past due DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%
Percent of nonperforming DOSRI/Related Party loans to DOSRI/Related Party loans	-%	-%

(e) Breakdown of Total Loans

As to Security

As to security, loans are classified into (net of unamortized discount):

	2022	2021
Secured by real estate mortgage	**₱501,712,434**	₱486,455,732
Secured by chattel mortgage	**92,458,923**	75,317,049
Secured by deposit	**21,078,976**	19,803,658
Secured	**615,250,333**	581,576,439
Unsecured	**45,809,636**	31,084,185
	₱661,059,969	₱612,660,624

As to Status

Breakdown of loans as to performing and non-performing status per product is as follows:

2022	**Performing**	**Non-performing**	**Total**
Commercial loan	**₱241,475,588**	**₱24,513,936**	**₱265,989,524**
Farmers loan	**116,009,595**	**24,289,134**	**140,298,729**
Truck and equipment loan	**42,004,278**	**2,372,341**	**44,376,619**
Livestock and poultry	**36,036,506**	**1,740,712**	**37,777,218**
Farm equipment loan	**30,238,335**	**4,909,033**	**35,147,368**
Financial back-up	**18,889,570**	**3,856,660**	**22,746,230**
Consumer loan	**19,709,190**	**3,023,596**	**22,732,786**
Back-to-back loan	**21,078,976**	**-**	**21,078,976**
Building construction	**13,196,168**	**6,518,669**	**19,714,837**
Pabahay loan	**15,552,496**	**2,685,560**	**18,238,056**
Real estate loan	**15,030,511**	**1,479,899**	**16,510,410**
Fringe benefit loan	**9,328,091**	**-**	**9,328,091**
Magsasaka loan	**2,640,073**	**158,400**	**2,798,473**
Selfie loan	**1,432,489**	**370,665**	**1,803,154**
Motorcycle financing	**1,565,835**	**-**	**1,565,835**
Salary loan	**879,612**	**72,015**	**951,627**
Education	**-**	**2,036**	**2,036**
	₱585,067,314	**₱75,992,656**	**₱661,059,969**

2021	Performing	Non-performing	Total
Commercial loan	₱197,410,143	₱25,091,032	₱222,501,175
Farmers loan	145,312,561	21,785,192	167,097,753
Livestock and poultry	32,810,928	2,421,114	35,232,042
Truck and equipment loan	31,897,245	2,435,948	34,333,193
Farm equipment loan	22,276,616	2,897,835	25,174,451
Real estate loan	23,045,966	-	23,045,966
Building construction	15,785,090	5,529,678	21,314,768
Back-to-back loan	19,375,731	-	19,375,731
Pabahay loan	16,128,632	1,706,129	17,834,761
Consumer loan	14,859,688	2,545,061	17,404,749
Financial back-up	13,889,399	2,999,605	16,889,004
Fringe benefit loan	6,260,860	31,675	6,292,535
Motorcycle financing	2,416,156	-	2,416,156
Selfie loan	1,511,246	44,474	1,555,720
Magsasaka loan	1,034,495	-	1,034,495
Salary loan	561,289	72,015	633,304
Hold out loan	427,926	-	427,926
Motorcycle loan	51,244	-	51,244
Education	32,769	12,882	45,651
	₱545,087,984	₱67,572,640	₱612,660,624

(f) Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2022 and 2021, the Bank has no liability with assets pledged as security.

(g) Contingencies and Commitments Arising from Off-balance Sheet Items

As of December 31, 2022 and 2021, the Bank has contingencies and commitments arising from off-balance sheet items as described in Circular No. 1074 as follows:

	2022	2021
Items held for safekeeping	**₱3,271**	₱3,271
Items held as collateral	**854**	854
	₱4,125	₱4,125

31. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15 – 2010

Revenue Regulations (RR) No. 21 – 2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15 – 2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below are the additional information required by RR 15 – 2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(a) Gross Receipts Tax

In lieu of the Value-Added Tax (VAT), the Bank is subject to Gross Receipt Tax (GRT) imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code, as amended.

In 2022, the Bank reported total GRT paid amounting to ₱4,442,459.

(b) Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2022 consists of:

Final withholding tax	₱1,816,408
Withholding tax on compensation	570,770
Expanded withholding tax	351,185
	₱2,738,363

(c) Documentary Stamp Tax (DST)

DST incurred by the Bank for the year ended December 31, 2022 amounted to ₱1,450,185.

(d) All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the year ended December 31, 2022 consist of:

Business permit	₱575,259
Real property tax	69,742
Registration fees	36,414
Annual registration	2,500
Others	31,739
	₱715,654

(e) Tax Assessments

The Bank has no pending litigations/tax cases as of December 31, 2022

Revenue Regulations (RR) No. 34-2020

The Bank is not covered by the requirements and procedures for related party transactions provided under RR no. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other supporting documents.

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

RURAL BANK OF SAN MATEO (ISABELA), INC.
As of December 31, 2022

Ratio	Formula	Current Year	Prior Year
Current ratio	Current Assets / Current Liabilities	69.43%	67.45%
Acid test ratio	Quick Assets / Current Liabilities	41.41%	40.39%
Solvency ratio	Net Income + Depreciation and Amortization / Total Liabilities	1.52%	1.57%
Debt-to-equity ratio	Total Liabilities / Total Equity	602.24%	621.35%
Asset-to-equity ratio	Total Assets / Total Equity	732.15%	721.35%
Interest rate coverage ratio	Earnings before Interest and Taxes / Interest Expense	298.87%	327.05%
Return on equity	Net Income / Average Total Equity	7.54%	7.92%
Return on assets	Net Income / Average Total Assets	1.06%	1.09%
Net profit margin	Net Income / Revenue	14.01%	14.32%