RBSMI

RURAL BANK OF SAN MATEO (ISABELA), INC.

2023 ANNUAL REPORT

San Mateo, Isabela

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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 61 years, the bank's commitment to the community has always been the best service to its clientele. We serve because we care.
#AngInyongKabalikatsaPagunlad

RBSMI Vision Statement, Mission Statement and Core Values

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.

The Bank offers various deposit products according to the needs of its clients. The Bank also facilitates real-time transactions through partnership with a digital technology platform. To boost the agriculture sector, RBSMI sticks to its mandate of offering several agri-related loan products. In helping the growth of the economy, the Bank also provides commercial loans and consumer loans.

CHAIRPERSON'S REPORT

Fellow RBSMI stockholders, members of the Board of Directors, Ladies and Gentlemen.

2023 was an excellent year for RBSM on many levels. There is so much to celebrate, the preeminent one being the income growth from 11.4 million pesos in 2022 to 17.8 million pesos in 2023, an increase of 56%, our best year ever.

This kind of record-setting performance does not happen by chance but by deliberate strategy and focus. In restructuring the management team, previously scantly tapped talent was unleashed, allowing certain individuals to make significant contributions to the renewed vigor of the bank. Thank you, management team and President and CEO Katrina Pilapil, for rising to the challenge and exceeding your target this year, as well as aiming high for the succeeding years. The right strategy plus the right people in the right place is always a winning combination.

Also noteworthy is the contribution of the members of the board. This board has worked very hard to ensure that the bank performs well while formulating policies that support our core values of integrity, professionalism, commitment to excellence and innovation, and partnership. In particular, our independent directors Judge Raul Babaran and Jonathan De Veyra, both recognized leaders in their field, have given so much of their time, energy and expertise, and I would like to publicly acknowledge them here. Thank you both, for your commitment and contribution to our success.

Moving forward, the plan in the next five years is to solidify our growth trajectory by increasing capital stock. This will allow greater expansion in our lending activities as well as allowing us to invest in other areas such as technology and digitization.

At the heart of our success lies the unwavering support of our shareholders. Your trust and confidence in our vision have been instrumental in propelling us forward. Together, we have fortified the foundation of RBSMI and positioned ourselves for sustained growth and prosperity.

As we look ahead, we do so with optimism and determination. We recognize the opportunities that lie on the horizon and are committed to seizing them with vigor and innovation. Our unwavering focus remains on delivering value to our shareholders, fostering financial stability, and contributing positively to the communities we serve.

Thank you very much.

PATRICIA ROSARIO MARIA G. REMIJAN
Chairperson of the Board

PRESIDENT'S REPORT

To our dear stockholders, BOD members and Bank officers, we are gathered here today, in-person and online. Welcome to our 61st Annual Stockholder's Meeting here at Rural Bank of San Mateo Isabela Inc.

The year 2023 has been a great year after the much challenge that the Bank has encountered during the pandemic. The Bank exceeded its expected Net Income, Key Result Area (KRA) of all branches was targeted, much more than what was expected.

RBSMI continues to grow and develop despite the uncertainties in our economy. People of San Mateo's continued patronage and loyalty indicates of their full trust in us. Our employees' dedication and devotion were felt and appreciated by our stakeholders as we say #*"Ang Iyong Kabalikat sa Pag-Unlad"*.

RBSM's 61 years in existence indicates of a strong foundation which I am sure our Grandparents, the founders, and all incorporators will be very happy if they were still here. The Bank is grateful to all stakeholders who tirelessly dedicated their collective effort to bring RBSMI to greater heights.

RBSMI's goal is to give back in to the community which we are serving yearly. Our Corporate Social Responsibility is to support various projects of the community like Brigada Eskwela of the Department of Education by giving school supplies, trash bin for waste segregation & construction materials were given to several public schools. We also gave fruit-bearing tree seedlings to several schools to plant and to adhere to BSP directives in integrating sustainability principles in the corporate governance.

Banking activities are risky in nature due to the different activities we are engaged in, such as deposit taking, investing, and lending. These risks, if not properly mitigated could lead to a possible loss. Capital Adequacy Ratio serves as a financial buffer to minimize or avoid possible losses and a basis for early supervisory intervention in case of any crisis that may arise. The minimum rate set by the BSP for Capital Adequacy Ratio is more than 10%. Grateful to God that RBSMI was able to achieve a higher CAR of 16.48%. This figure indicates that the Bank has the capacity to remain solvent under difficult financial circumstances. That is why Capital Build up is very important.

Finally, I would like to extend my gratitude to our Board of Directors headed by our Chairperson Ms. Paticia Remijan, To Dir. Ronald Silverio, Dir. Michelle Arcenal, Dir. Paolo Petines, Independent Dir. Raul Babaran and Independent Dir. Jonathan De Veyra. To our Chief Compliance Officer, Atty. Joseph John Ronquillo, Congratulations again for passing the 2023 bar Exam and to the oversight group, to our Internal Audit Department headed by Ms. Jhoanna Gonzales, to our new COO, Ms. Relita Cruz, and to our New Division Head, Mr. Viensor Valenzuela, our Department Heads, Branch Managers and all employees who gave their best effort to this company, words will never be enough to thank you for all your support. May God continue to bless us more. Thank you, also dear Stockholders, for supporting and believing in this Bank. For 61 years RBSMI is still here and will continue to be here and serve the community we are in.

To God be all the glory and praises. "If God is with us who can be against us".

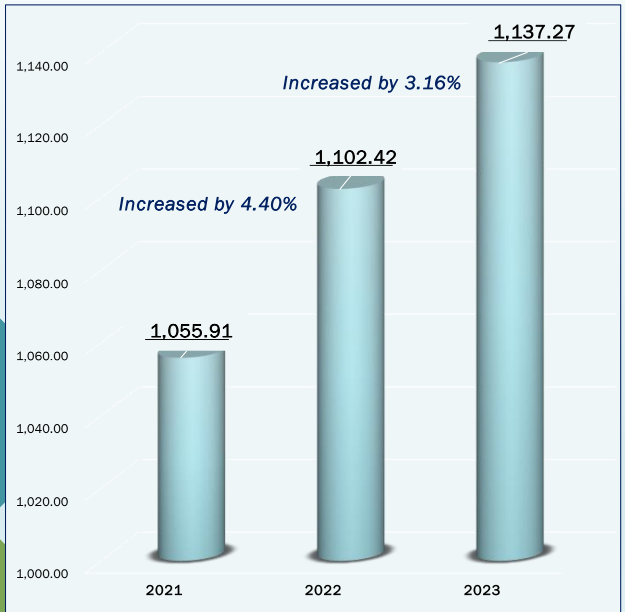
KATRINA MARIE P. PILAPIL
President and Chief Executive Officer

2. Financial Summary

	2023	2022
Profitability		
Net Interest Income	80,563,173	73,956,349
Total Non-Interest Income	22,621,898	11,388,696
Total Non-Interest Expense	59,681,723	56,032,000
Pre-Provision profit	43,503,348	29,313,045
Provision for credit losses	20,049,330	14,061,369
Net Income	17,884,372	11,438,757
Selected Balance Sheet data		
Liquid Assets	472,720,478	416,040,965
Gross Loans	647,432,835	661,059,969
Total Assets	1,137,271,531	1,102,418,829
Deposits	934,275,318	914,718,852
Total equity	179,440,532	156,959,436
Selected Ratios		
Return on Equity	9.35%	7.54%
Return on Assets	1.40%	1.06%
CAR	16.48%	16.49%

FINANCIAL HIGHLIGHTS

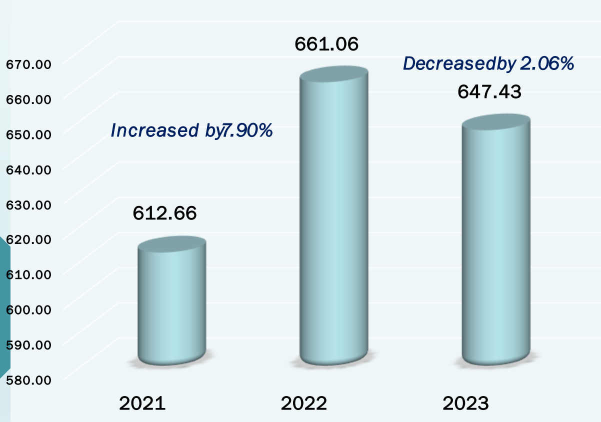
TOTAL ASSETS



2023	1,137,271,531.00
2022	1,102,418,829.00
2021	1,055,913,334.00

The Bank's Total Assets posted an increase of 3.16% due to the increase in deposits to various depository banks.

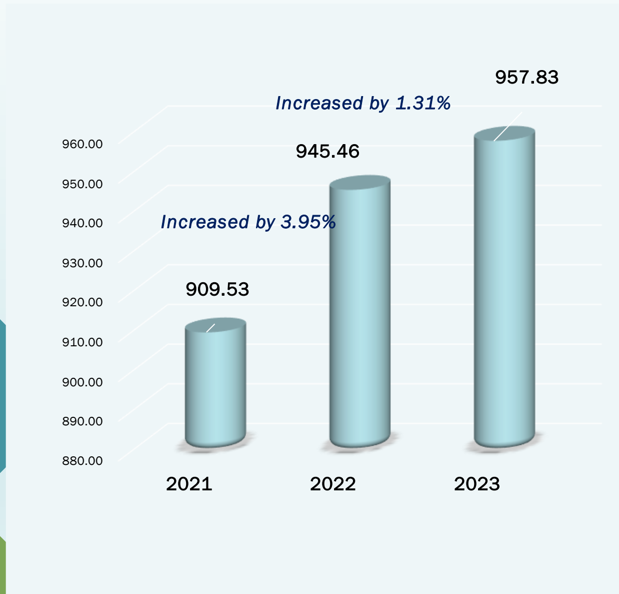
LOAN PORTFOLIO
(amortized cost)



2023	647,432,836.00
2022	661,059,969.00
2021	612,656,559.00

The Bank's Loan Portfolio has recorded a decline of 2.06%.

TOTAL LIABILITIES



2023	957,830,999.00
2022	945,459,394.00
2021	909,532,454.00

The Bank's Total Liabilities posted an increase of 1.31% due to the increase in deposit liabilities.

DEPOSIT LIABILITIES

2023	934,275,318.00
2022	914,718,852.00
2021	880,884,087.00

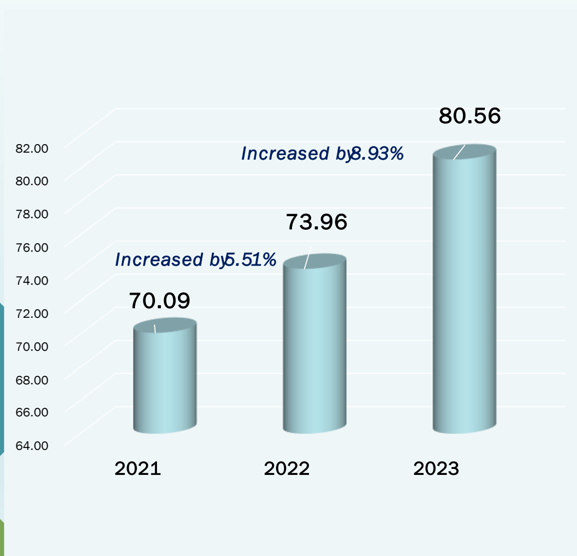
The 2.14% increase in deposit level is attributed to the increase in Regular Savings Deposit and Special Savings Deposit products.

EQUITY

2023	179,427,868.00
2022	156,959,436.00
2021	146,380,880.00

The 14.31% increase in the Bank's Equity is due to the reclassification of Deposit for Stock Subscription from the Liability to Equity.

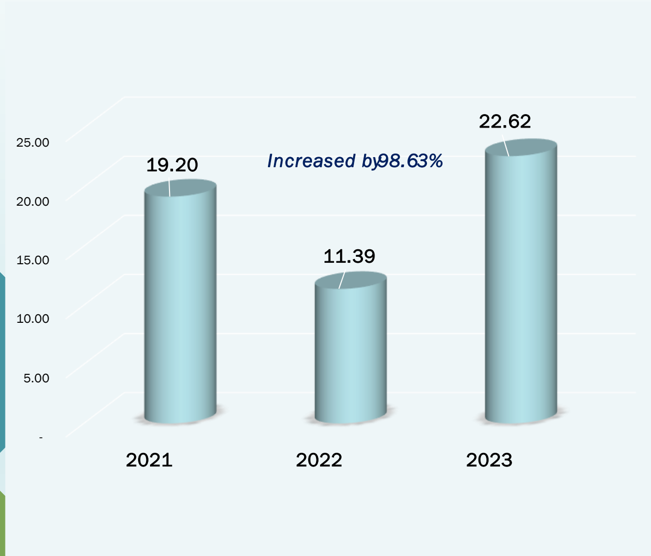
NET INTEREST INCOME



2023	80,563,173.00
2022	73,956,349.00
2021	70,090,467.00

Net Interest Income posted an increase of 8.93%

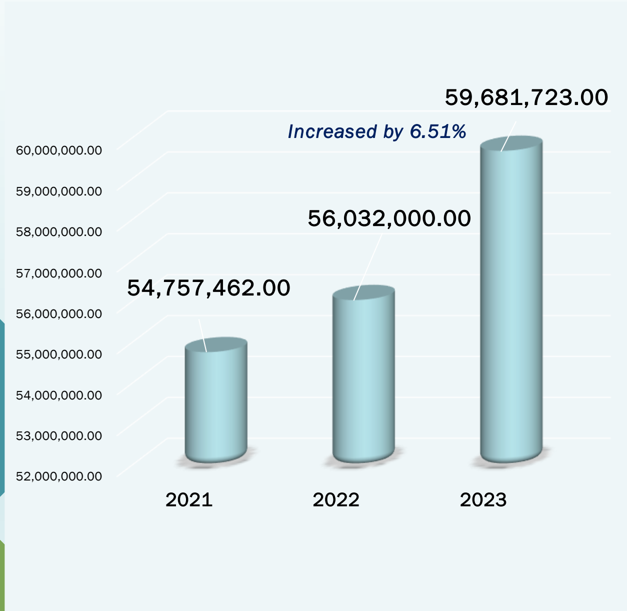
OTHER INCOME



2023	22,621,898.00
2022	11,388,696.00
2021	19,197,516.00

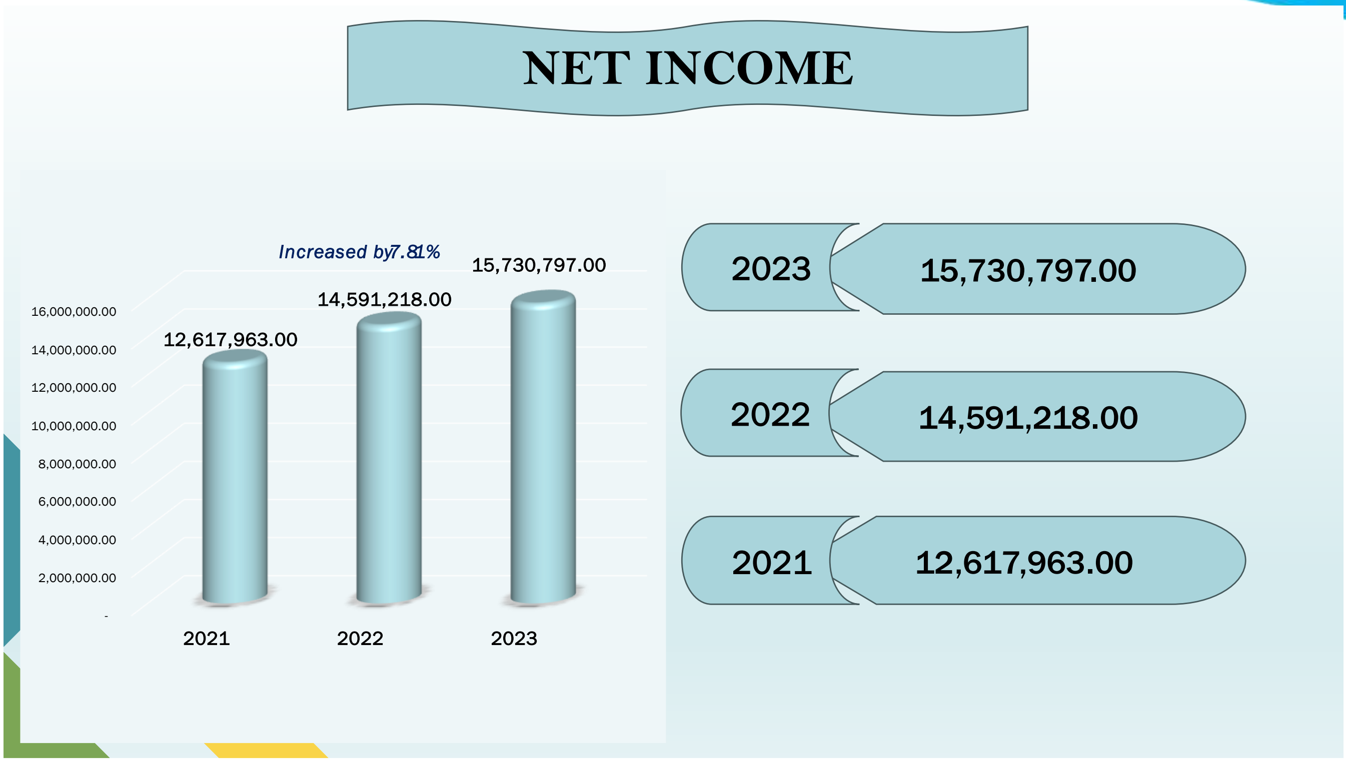
The increase in Non-Interest income is attributed to the gain on sale of Investment properties.

OPERATING EXPENSES



2023	59,681,723.00
2022	56,032,000.00
2021	54,757,462.00

The increase in Operating expenses is due to the increase in compensation.



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

The Bank's indication of maintaining its financial growth and improving its financial status is manifested in the increase in the total resources. RBSMI was able to raise its Total Assets by 3% from 1.102 million in 2022 to 1.137 million in 2023. The variance is attributed to the increase in the Bank's deposit to different depository banks.

Since RBSMI has adequate funds, liquid assets continue to grow from 416 million in 2022 to 472 million in 2023, thereby increasing the liquidity ratio from 45.48% in 2022 to 50.60% in 2023. These figures signify the Bank's capability to meet its maturing obligations.

The Loan Portfolio although there was a slight decline due to loan buy out for one of the top borrowers, continuous to support the Bank's profitability through the generated revenues.

RBSMI's deposit products constantly increasing from 880 million in 2021 to 914 million in 2022 to 934 million in 2023. Most of the clients not only avail deposit products but also online services and remittances to meet their financial needs. Soon, RBSMI will have its Mobile Banking App powered by JMH IT Solutions, also the provider of the Bank's Core Banking System. If so, RBSMI will be the 1st Rural Bank in the Region to have Mobile Banking services.

Last June 16, 2023, the Securities and Exchange Commissions has finally approved the Bank's application to increase the Capital Stock by 50,000,000.00 of which 25% or 12, 500,000.00 was already subscribed and paid thereby increasing the Bank's equity from 156 million in 2022 to 179 million in 2023. In this regard, RBSMI is one of the few rural banks compliant to the regulation on New Capitalization.

The Bank's Net Interest Income stood strong with an increase of 8.93% from 73.9 million in 2022 to 80 million in 2023. Additional revenues were recorded for the collection of Non-performing Loans in Agricultural Products and from the increase in loan releases for Pabahay Loan product.

The Bank's other income also showed a significant increase from 11.39 million to 22.62 million in 2023 due to the sale of our biggest ROPA account.

Operating Expenses has an increase of 6.51% due to the increase in the salaries and wages.

As a result, the Bank's Net Income was able to sustain its growth, achieving a 56.24% increased from 11.4 million in 2022 to 17.87 million in 2023.

Financial indicators such as Return on Asset Ratio also increased from 1.06% in 2022 to 1.40% in 2023 so does the Return on Equity Ratio from 7.54% in 2022 to 9.35% in 2023.

The Capital Adequacy ratio of 16.48% this 2023 is slightly lower than the previous year's CAR of 16.49%, nevertheless it's still higher than the required CAR of 10%. This figure indicates that the Bank has the capacity to remain solvent under difficult financial circumstances.

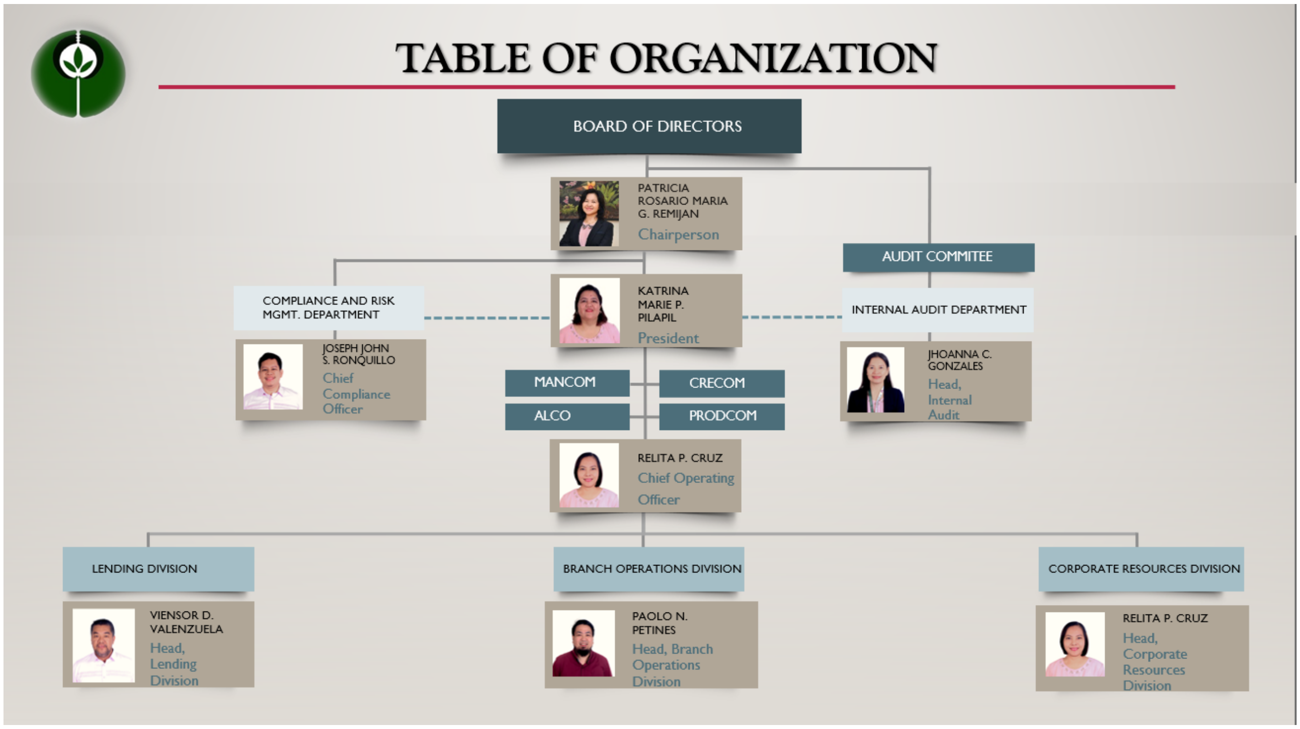
b. Highlights of major activities during the year that impact operations

This year is another milestone for RBSMI as we celebrate the 61st founding anniversary of the Bank. The highlight of the celebration was set on June 16, 2023.

The Bank also enhanced its organizational structure through the incorporation of three major divisions, namely: Lending Division, Branch Operations Division, and Corporate Services Division and the appointment of Ms. Relita P. Cruz as the new Chief Operating Officer. Through these three divisions, policies implementation was carried out more effectively and efficiently.

The Bank's Oversight Group remains with the Compliance and Risk Management Department and the Internal Audit Department.

Below is the representation of the changes to the Bank's Organizational Structure of the Bank as of June 2023:



C. **Major strategic initiatives of the bank**

I. The Strategic Goal

The Goal Statement:

To achieve a net income of 12m by 2023 and 10% increase every year after.

Highlights of the Goal Statement

The management firmly believes that profits tend to build up buffers against a negative shock brought by uncertain events in the economy. Being aggressive to accomplish the Bank's Strategic Plans and Targets but not to the extent of compromising quality performance is one way to support the Bank's Vision.

The goal statement will have to be reinforced by supporting goals to measure RBSMI's accomplishments by the year 2023 to 2027. The supporting goals, which were further elaborated when the strategic objectives were later drawn, are as follows:

Supporting Goal 1: INCREASE PROFITABILITY

Banks engage in a wide array of activities with inherent risks but managing properly these risks will generate a reward called profit. To increase the Bank's profitability, the following activities must be carried out.

1.1 Loan Portfolio

Loan Portfolio is the biggest asset of the bank and the predominant source of revenue. Thus, the following action plan must be observed:

- Enhance and improve lending operations to achieve a loan portfolio balance of 855m for the year 2023 and increase to 934m by 2027.
- For 2023, the management decided to give targets to the Account Officers in Head Office based on their specialized loan products.
- Loan Targets must be earmarked to Agricultural Loan, Commercial Loan and Pabahay Loan Products

Loan Portfolio by Product	2023 Target	2024 Target	2025 Target	2026 Target	2027 Target
BUILDING CONST.	30,153,790.31	31,348,705.88	32,825,699.24	34,312,513.32	35,837,296.23
BACK TO BACK LOAN	7,500,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
COMMERCIAL LOAN	289,601,033.05	296,184,484.43	302,261,190.33	305,884,283.20	308,855,869.24
CONSUMER LOAN	23,662,073.26	24,397,991.69	25,310,912.50	25,982,511.06	26,584,597.19
FARMERS LOAN	209,225,599.98	216,044,818.77	222,938,509.06	226,404,445.79	230,254,900.53
FARM EQUIP LOAN	64,277,162.88	66,680,201.98	70,145,499.60	72,295,308.00	74,939,183.38
FINANCIAL BACK UP	32,226,078.47	32,539,165.27	33,120,301.02	33,453,539.91	33,807,754.39
FRINGE BENEFIT LOAN	5,331,827.81	5,331,827.81	5,331,827.81	5,331,827.81	5,331,827.81
LIVESTOCK & POULTRY	58,772,181.71	60,051,511.97	61,066,484.31	62,149,903.26	63,492,838.20
MAGSASAKA LOAN	8,635,880.88	9,775,277.28	10,669,716.33	11,468,346.13	12,392,507.66
MOTORCYCLE FINANCING	4,457,297.99	4,592,936.98	4,290,227.76	4,399,415.72	4,483,011.95
PABAHAY LOAN	28,513,312.57	30,461,039.20	32,086,844.99	33,204,722.27	34,572,799.11
REAL EST. PRO ACQUI	30,300,610.83	31,742,503.24	32,653,012.34	33,340,356.76	34,278,864.61
SELFIE LOAN	1,845,597.24	1,896,450.96	1,972,731.53	1,972,731.53	1,972,731.53
SALARY LOAN	1,360,448.95	1,360,448.95	1,360,448.95	1,360,448.95	1,360,448.95
TRUCK&EQUIP	59,142,247.17	61,515,226.37	64,082,012.17	65,926,460.89	68,104,340.12
TOTAL	**855,005,143.10**	**876,922,590.78**	**903,115,417.95**	**920,486,814.60**	**939,268,970.89**

1.2 Deposit Liabilities

Majority of the Bank's resources are funded by deposit liabilities. These deposits are essential in realizing the Bank's Targets on its Loan Portfolio. Therefore, the following strategies must be implemented:

- Continue building up good customer relationship in order to achieve a Deposit balance of 940 million by 2023 and approximately 1 billion by 2027.

Deposit Liabilities by product	Target 2023	Target 2024	Target 2025	Target 2026	Target 2027
Demand Deposit	**166,384,553.53**	170,384,553.53	175,234,553.33	177,891,985.39	180,549,417.45
Regular Savings Deposit	**556,863,942.58**	575,644,666.72	594,349,525.82	607,725,953.50	620,730,714.43
Special Savings Deposit	**198,521,978.16**	202,784,731.05	205,989,991.15	208,647,791.27	211,932,241.68
Junior Savers Club	**13,800,876.06**	14,916,485.57	17,043,634.55	18,083,975.36	19,257,850.11
Basic Deposit Account	**496,341.10**	543,141.53	603,774.79	678,945.71	764,645.43
ATM	**4,280,799.35**	4,285,367.13	4,394,234.22	4,539,376.89	4,684,519.56
TOTAL	**940,348,490.78**	**968,558,945.52**	**997,615,713.86**	**1,017,568,028.13**	**1,037,919,388.67**

1.3 Investment

- To effectively utilize excess funds, the Bank's target is to maintain an investment balance of not exceeding 15% of the Deposit Liabilities.
- 2% of the Target Deposit Liabilities every year will be added to the Investment balance.

	Year 1 Budget 2023	Year 2 2024	Year 3 2025	Year 4 2026	Year 5 2027
Deposit Liabilities	**940,348,490.78**	**968,558,945.50**	**997,615,713.87**	**1,017,568,028.15**	**1,037,919,388.71**
Increment	9,704,700.00	28,210,454.72	29,056,768.37	19,952,314.28	20,351,360.56
Allocation of Deposit Liability increment per year:					
Allocated to Loan Portfolio		21,917,447.68	26,192,827.17	17,371,396.65	18,782,156.30
2% Allocated to Reserve Requirements		**564,209.09**	**581,135.37**	**399,046.29**	**407,027.21**
Allocated to Investments/Due from Banks		5,728,797.95	2,282,805.83	2,181,871.34	1,162,177.06
Total Increment		***28,210,454.72***	***29,056,768.37***	***19,952,314.28***	***20,351,360.56***
Loan Portfolio	**855,005,143.10**	**876,922,590.78**	**903,115,417.95**	**920,486,814.60**	**939,268,970.89**
Loan to Deposit Ratio	91%	91%	91%	90%	90%

1.4 <u>Others</u>

- To formulate an effective way how to properly dispose remaining ROPA accounts to generate additional revenue.
- To enhance collection strategies on Past Due and Non-performing loan accounts
- To observe prudence on cost utilization.
- To continuously advertise and cross-sell other income generating services.

<u>Supporting Goal 2: STRENGTHEN RISK MANAGEMENT</u>

2.1 Risk Identification

- Risk Appetite Statement
- Risk Management Policy
- Risk Management Process and Infrastructure
- Risk identification, monitoring, and controlling
- Risk communication

2.2 Risk Planning and Analysis

1. Credit risk
2. Market risk
3. Interest rate (banking book) risk
4. Liquidity
5. Operational risk
6. Compliance risk
7. Strategic
8. Reputation risk – risk arising from negative public opinion.

2.3 Information Technology Risk Management

Supporting Goal 3: REINFORCE CAPITAL ADEQUACY

3.1 Capital Adequacy Ratio

- Achieve a Capital Adequacy Ratio of more than 15% this 2023 and above 18% by 2027 which will be supported by the following activities:
  - Constant monitoring of Other Risk Assets specifically 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%)

3.2 Capital Build Up Plan

- Increase Capital to 250 million by 2027 through the following action plans.

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 500,000.00 increase in authorized share

Supporting Goal 4: ENHANCE BANK IMAGE

1.1 Maximize service quality through a Quality Management Program
1.2 Effectively use social media platforms
1.3 Build positive image through relevant corporate social responsibility programs

Supporting Goal 5: TRANSFORM BANK ORGANIZATION

5.1 Enhance Internal Control and Processes
5.2 Enhance systems to monitor plans and strategies against actual performance
5.3 Effectively nurture in house talent

Supporting Goal 6: STRENGHTHEN INFORMATION TECHNOLOGY

6.1 Transform into more IT driven existing systems and procedures/process
6.2 Implement mobile app

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)

d. Challenges, opportunities, and responses during the year

One of the challenges that the Bank encountered for 2023 is the changes in the organizational structure – the new three divisions. Since this will be the first time that the Bank will organize divisions, another challenge is the appointment of the qualified personnel who will hold the division. Considerations were given to the officer's tenure with the Bank and core competencies. Though this is new to the Bank, it opened rooms for growth with the Bank in terms of management and human resources. The re-organization actually played a major role in the attainment of the Bank's goal for 2023.

Another challenge is the internal fraud incident involving one employee however, this was promptly addressed and it allowed the Bank to further enhance the quality of its risk management and internal operational controls and measures, as well as recruitment and training processes.

The year 2023 presented both challenges and opportunities in the Corporate Resources Division, and as we navigated through these complexities, our responses contributed to the Bank's success in achieving its goal.

As the world evolves into digital era, so with our traditional processes. One of the biggest challenges the Bank has encountered was the full adoption of the new procedures in submitting financial reports to BSP – the BSP Relationship Management System (BRMS). This new procedure aims to transforms report submission into unified digital platform with a world class security, flexibility and ease of use. With the lack of technical know-how, the Controllership Department had a challenging period adopting to this new platform. Thus, to fully equip our personnel with adequate knowledge and skills, they attended the seminar of BSP on how to properly accomplish the FRP and FRP related reports through the BRMS.

Transforming traditional processes and procedures into digital operation is also one of the challenging initiatives of the Bank. This is one of the concerns in the Corporate Services Department concerning the handling and monitoring of credit folders. To maintain a smooth credit management process and to prevent issues in returning documents, the movements of these credit folders and securities must be supported by a digital process. However, this process is yet to be incorporated in the Core Banking System. Meanwhile, the IT Department is directed to formulate a process utilizing the google sheet to appropriately document the said movements.

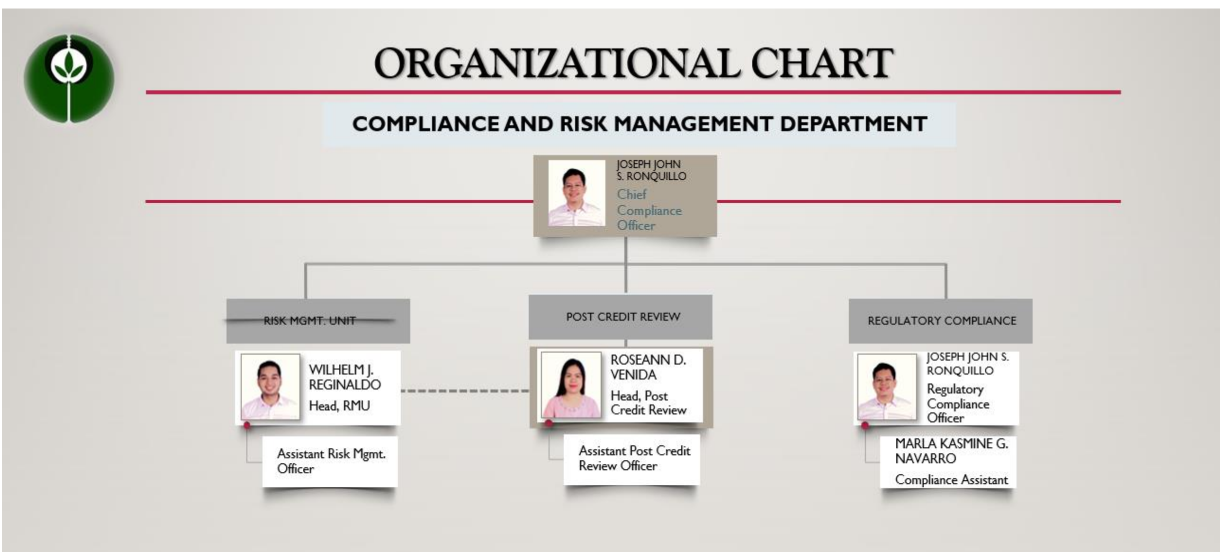
4. Risk Management Framework Adopted

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 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.

The Bank's Risk Management Unit is now attached to the Compliance Department and further merged as the Compliance and Risk Management Department (CRMD). In 2023, a new section was created under the CRMD, the Post Credit Review Section which is primarily tasked of ensuring adequacy of allowance for credit losses and strengthening the bank's credit risk.



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. The Bank also adopted an internal SBL, lower than the regulatory limit, as a prudent process. Policy on Related Party Transactions was enhanced.

Credit Stress Testings were consistently exercised quarterly capturing highly concentrated industries and exposures and reported to the Board.

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 the monitoring of the day-to-day funds management together with the Credit Administration Department, Marketing Department and Branch Managers. Liquidity Stress Testings were conducted on a quarterly basis. The Bank's Contingency Funding Plan is currently being revised to adapt new recovery plans and funding options.

OPERATIONS RISK
The creation of the three major divisions within the Bank allowed risk to be easily identified, assessed and controlled. Incident reports and breaches to operational procedures are systematically reported through the Bank's Core Banking System. Business Continuity Plan testing was consistently implemented. The Bank's Succession Plan was consistently reviewed and updated annually.

b. Risk appetite and strategy

RISK APPETITE STATEMENT 2023

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 12% 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), and shall have the following risk appetite:

- *Agriculture, Fisheries and Rural Development Financing – 60%*
- *Micro and Small Scale Enterprise loan – 12%*
- *Medium Scale Enterprise Loan – 60-70%*

Limitations for Related Party Transactions

The limit for aggregated Related Party Transactions is ten percent (10%) of the Total Loan Portfolio.

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.

The Bank's MTPP further incorporates measures for prevention of OSEC – Online Sexual Exploitation of Children and measures to monitor and address Proliferation Financing and Terrorism Financing.

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 and self-assessment 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. The Board of

Directors as a body assess the Compliance Function while the Audit Committee assess the Internal Audit Function.

(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) The Bank's Audit Committee conducts its quarterly meeting together with the Internal Audit Department and whenever the circumstances warrant a special meeting.

(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) Mission and Strategy. Works with board and staff to ensure that the mission is fulfilled through programs, strategic planning and community outreach.
(4) 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	5	10,289	1.7148%
Ronald Melchor D. Silverio	Non-executive	14	1,724	0.2873%
Katrina Marie P. Pilapil	Executive	18	32,020	5.3367%
Michelle Christine P. Arcenal	Non-executive	4	14,315	3.0137%
Paolo N. Petines	Executive	3	18,082	3.2617%
Raul V. Babaran	Non-executive	2	1	0.0002%
Jonathan B. De Veyra	Non-executive	3	2	0.0003%

BOARD OF DIRECTORS 2023

RURAL BANK OF SAN MATEO (ISABELA) INC.

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

RURAL BANK OF SAN MATEO (ISABELA) INC.

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

RURAL BANK OF SAN MATEO (ISABELA) INC.

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 since 2005-2020
Asst. General Manager since 1997-2004

Education: BSC Accounting - De La Salle University

RURAL BANK OF SAN MATEO (ISABELA) INC.

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

RURAL BANK OF SAN MATEO (ISABELA) INC.

PAOLO N. PETINES
Marketing Division Head

Age & Nationality: 43 / Filipino
Board Position: Director 2019-2020

Education: BS in Marketing Management
University of La Salette, Inc.

Freshman – Juris Doctor Student
University of La Salette, Inc.

Affiliations: President
Federation of Cagayan Valley Rural Banks and Cooperative Banks (FCVRBC)

RURAL BANK OF SAN MATEO (ISABELA) INC.

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

RURAL BANK OF SAN MATEO (ISABELA) INC.

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.

MINIMUM QUALIFICATIONS OF INDEPENDENT DIRECTOR

(1) is not or was not a director, officer or employee of the BANK, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;

(2) is not or was not a director, officer, or employee of the BANK's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;

(3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;

(4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the BANK or any of its

related companies or of any of its substantial stockholders. Close family members shall refer to persons related to the BSFI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the BSFI's DOS;[3]

(5) is not acting as a nominee or representative of any director or substantial shareholder of the BANK, any of its related companies or any of its substantial shareholders;

(6) is not or was not retained as professional adviser, consultant, agent or counsel of the BANK, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;

(7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BANK or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;

(8) was not appointed in the BANK, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

(9) is not affiliated with any non-profit organization that receives significant funding from the BANK or any of its related companies or substantial shareholders; and

(10) is not employed as an executive officer of another company where any of the BANK's executives serve as directors.

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 Ronald Melchor D. Silverio

h. Directors' attendance at Board and Committee meetings

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

i. **Executive Officers/ Senior Management**

President - Katrina Marie P. Pilapil

Age and Nationality: 53 yrs. old, Filipino

Ms. Pilapil is a graduate of BSC Accounting at De La Salle University. She has over 25 years 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.

Vice President and Chief Operating Officer – Relita P. Cruz

Age and Nationality: 42 yrs. old, Filipino

Rank: Vice President

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 Head of Controllership Department. She was appointed as the new Chief Operating Officer effective October 01, 2023.

Chief Compliance Officer – Atty. Joseph John S. Ronquillo

Age and Nationality: 30 yrs. old, Filipino

Rank: Assistant Vice President

Atty. Joseph John S. Ronquillo has more than one decade 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 newly admitted to the Bar last December 2023.

Lending Division Head – Viensor D. Valenzuela

Age and Nationality: 46 yrs. Old, Filipino

Rank: Assistant Vice President

Mr. Viensor D. Valenzuela is a graduate of Bachelor of Science in Commerce major in Management. He has more than two decades of banking experience since 1998 and held various positions such as loan clerk, loan officer and Chief Appraiser. Prior to his appointment as the Lending Division Head, he served as the Head of the Remedial Management Department.

Marketing Department Head – Maritess C. Hermosura

Age and Nationality: 50 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 2007 and held various positions as Teller, Loan Officer, Head of Credit Administration Department and currently as Head of Marketing Department.

Internal Audit Department Head – Jhoanna C. Gonzales

Age and Nationality: 42 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 June 2014. She was an internal auditor of another rural bank when she joined RBSMI.

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. The Department Heads are evaluated by the Division Heads and the Division Heads are evaluated by the President. The Head of the Compliance and Risk Management Department is evaluated by the Board of Directors as a body, and the Head of Internal Audit Department is evaluated by the Board Audit Committee.

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. AML Trainings are conducted regularly and all employees should have a refresher training every two years.

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: COO, Division Heads and Control Functions Head (Head for Lending, Branch Operations Head, Corporate Resources and Head for Internal Audit and Compliance)

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 Divisions and Operation and Oversight 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 of every Division and Operation and Oversight Group 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 2023:

1. Katrina Marie P. Pilapil – President-CEO
2. Maritess C. Hermosura – Head – Marketing Department
3. Evangeline M. Gagarin – Head – Corporate Services Department
4. Solomon R. Visaya – Branch Manager, Alfonso Lista Branch

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 is 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
12/31/2023
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	9,300,000.00	10 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE, RESTRUCTURED PAST DUE LOAN	FULLY SECURED LOAN, GRANTED IN ARMS LENGTH
	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	13,550,000.00	10 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE, RESTRUCTURED PAST DUE LOAN	FULLY SECURED LOAN, GRANTED IN ARMS LENGTH
	CR DOMINGO CONSTRUCTION AND POWER DEVELOPMENT, INC.	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	6,230,000.00	10 YEARS, AMORTIZED, 10% INTEREST RATE AND 2% BANK CHARGE, RESTRUCTURED PAST DUE LOAN	FULLY SECURED LOAN, GRANTED IN ARMS LENGTH
	Domingo, Edward Yutangco	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	1,500,000.00	2 YEARS, AMORTIZED, 12% INTEREST RATE AND 2% BANK CHARGE	FULLY SECURED LOAN
	Coloma, Austson Jr. Tan	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	3,060,000.00	3 YEARS, AMORTIZED, 14% INTEREST RATE, 2% BANK CHARGE	FULLY SECURED LOAN
	Coloma, Austson Jr. Tan	RELATED PARTY OF A STOCKHOLDER (CLOSE FAMILY MEMBER)		BORROWINGS	5,000,000.00	1 MONTH ONLY, LUMP SUM, 9% PER ANNUM INTEREST RATE, 1% PER ANNUM BANK CHARGE	FULLY SECURED LOAN, BACK-TO-BACK LOAN

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 include:

- 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 Audit Committee shall 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 through checking that 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.

The Internal Audit Department directly reports to the Audit Committee the results of its audit findings, special/fraud audits, and other auditing and consulting activities to ensure that the Bank's Business Operating Units takes corrective actions in a prudent manner to sufficiently address any noted exceptions, weaknesses, and non-compliance to policies and regulations.

The Board Audit Committee holds its meeting quarterly, either in-person or virtual, depending on the circumstances, to ensure the effectiveness and adequacy of the internal control system of RBSMI. The Committee deliberates and thoroughly discusses on issues related to the Bank's internal controls, and recommends measure to strengthen the overall quality of the Risk Management System. The Auditee Units' responses and actions taken are presented before the Audit Committee and the Committee assesses sufficiency of the reply.

In 2023, the Board Audit Committee held 4 meetings with 100% attendance from all its members.

In 2023 also, the Board Audit Committee further strengthened the Bank's Internal Controls on the Bank's offered services of bills payment as well as the recruitment policy to prevent internal fraud.

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 Five Million Seven Hundred Fifty Thousand Pesos (P5,750,000.00) Cash Dividends to its stockholders on July 06, 2023.

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 (LlB) / 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.

Corporate responsibility to society is part of the Bank's corporate governance. The Bank's strongest support came from the society so it is only appropriate to at least gives back in return in the form of good corporate governance. Therefore, RBSMI CSR aims to embrace responsibility for corporate actions and to encourage a positive impact on the environment and stakeholders.

Every year, RBSMI actively participates in the Department of Education's Brigada Eskwela by donating paints and this year, to comply with the regulation on sustainability, the Bank also distributed trash bins and fruit bearing trees to different schools.

Below are the photographs representing he Bank's participation with the Brigada Eskwela 2023:


IA INTEGRATED SCHOOL
WELCOME GUESTS AND VISITORS
STAY SAFE AND ENJOY YOUR VISIT
RURAL BANK OF SAN MATEO
(ISABELA), INC.


RURAL BANK OF SAN MATEO
(ISABELA), INC.
"Ang inyong kabalikat sa Pag-Unlad"
Platinum
BOYSEN
BOYSEN


RURAL BANK OF SAN MATEO
(ISABELA), INC.
"Ang inyong kabalikat sa Pag-Unlad"


Schools Division Superintendent
Teaching Staff
MATATAG
RURAL BANK OF SAN MATEO
(ISABELA), INC.
"Ang inyong kabalikat sa Pag-Unlad"


Sa SMGCHS
CHS: A place for Little WONDERS
BIODEGRADABLE

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.

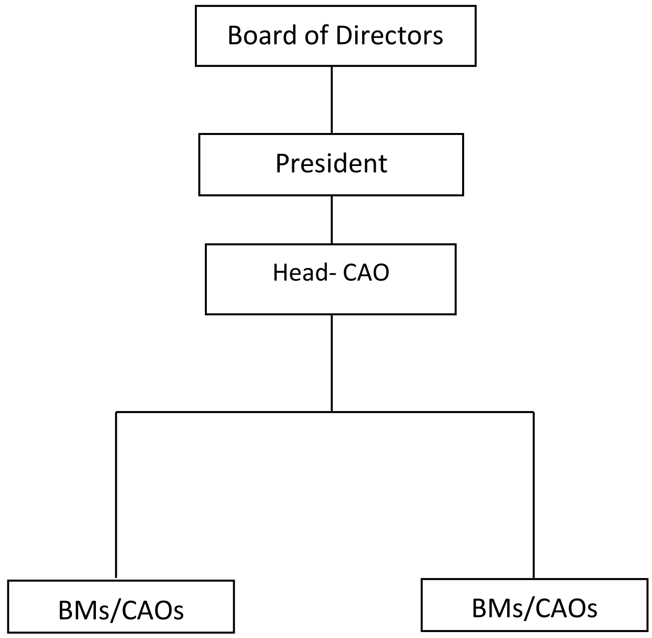
The CPRMS is proportionate to the size, structure and complexity of Rural Bank of San Mateo (Isabela), Inc. (RBSMI) operations. It provides the foundation for ensuring the Bank's adherence to CP standards of conduct and compliance with customer protection laws, rules and regulations in order to prevent 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: Nestor A. Dres – Consumer Assistance 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.).	
• **Commercial 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.	
• **Financial Back-up Loan**	An unsecured loan which aims to provide additional capital to small and medium entrepreneurs in line with their existing business.	
• **Selfie Loan**	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.	
• **Consumer 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.	
• **Fringe Benefit Loan**	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,	

• **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.	 
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.	 
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	  

	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.

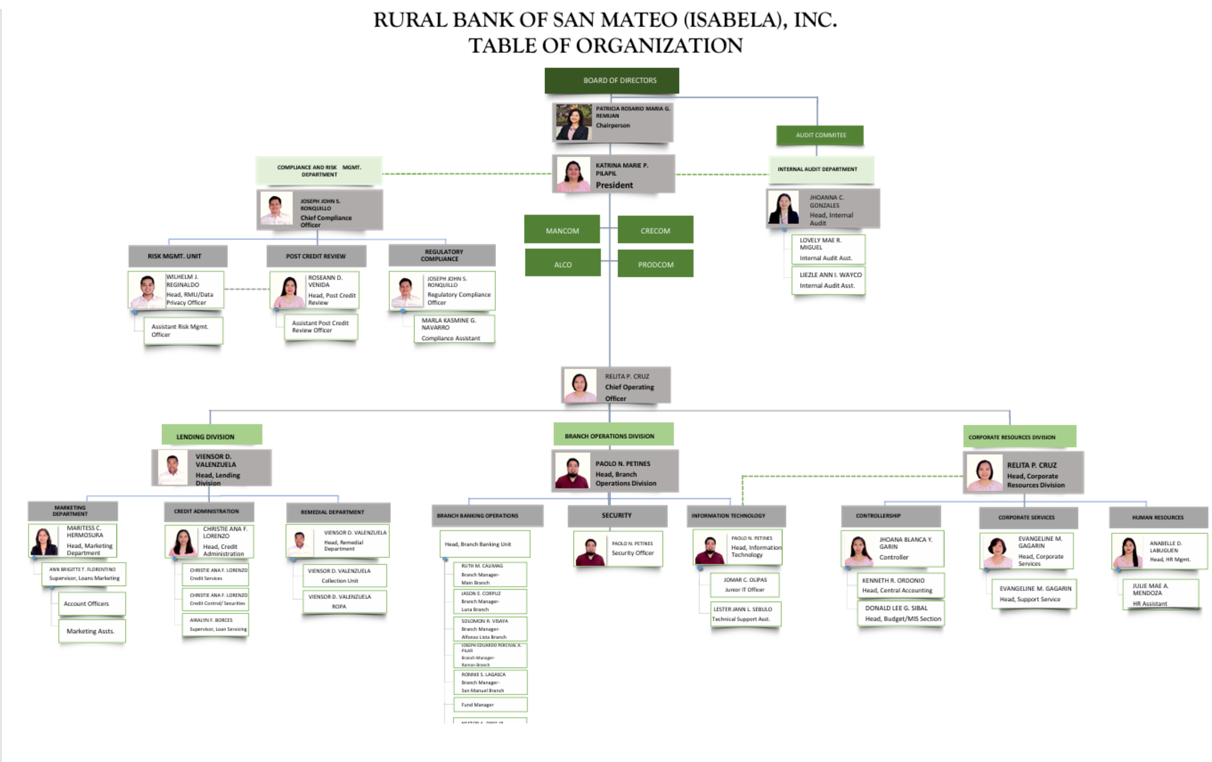
ix. Advocate regular physical exercise program for bank personnel to maintain physical fitness and eliminate risk from absenteeism due to illness.

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	Cruz, Relita P.	Chief Operating Officer	Vice President
3	Ronquillo, Joseph John S.	Chief Compliance Officer	Assistant Vice President
4	Valenzuela, Viensor D.	Head – Lending Division	Assistant Vice President
5	Hermosura, Maritess C.	Head - Marketing Department	Senior Manager
6	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	136,503	22.75%	Active
Gapud, Nenita P.	Filipino	96,322	16.05%	Active
Mayo, Helen P.	Filipino	76,887	12.81%	Active
Pilapil, Katrina Marie P.	Filipino	32,020	5.34%	Active
Petines, Manuel Y.	Filipino	27,958	4.66%	Active
Ramos, Ma. Alexandra P.	Filipino	23,619	3.94%	Active
Mayo, Mark Stephen P.	Filipino	22,632	3.77%	Active
Petines, Angelo N. (estate)	Filipino	21,844	3.64%	Active
Petines, Paolo N.	Filipino	19,570	3.26%	Active
Petines, Soledad	Filipino	18,640	3.11%	Active
Arcenal, Michelle Christine P.	Filipino	18,082	3.01%	Active
Petines, Reginald	Filipino	18,082	3.01%	Active
Petines, John Paul	Filipino	18,082	3.01%	Active
Total		**530,241**	**88.37%**	

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
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Basic Requirements
• Valid IDs and 2x2 Picture
• Proof of income
• Price quotation
• CR/OR
Visit our FB page
Facebook.com/RBSanMateoIsabela/
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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
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SKYCABLE
BAYANTEL
BROADBAND EVERYWHERE
EASTERN TELECOM
GATE
GLOBELINES
G-QUEST
MYCLOUD
ONEWAYSMS
PTBT
VIACOM
WI TRIBE
CIGNAL TV
SCHOOL
ATENEO SCHOLAR
DELASALLE UNIV
DELASALLE ZOBEL
LASALLE GREENHILLS
XAVIER
XAVIER AA
MOBILE PLAN/LOAD
GLOBE
TOUCH MOBILE(TM)
SMART
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SUN CELLULAR
GHPHONE
GOV'T DOCUMENTS
NBI
PIONEER LIFE
POEA
PRC
SEC
GOV'T CONTRIBUTIONS
PAG-IBIG
PHILHEALTH
SSS
AIR TICKETING
AIR ASIA
AIRPAZ
CEBU PACIFIC
PAL
SKYJET
OTHERS
HOME CREDIT
DRAGONPAY
BPI CREDITCARD
DRAGONGAMES
PSBANK LOAN
AEON CREDIT
AGODA
ASIALINK
AUB CREDITCARD
AVEVIA
CASHSENSE
CHINA TRUST
CITIFINANCIAL
CTIBANK SAVINGS LOAN
DOCTORCASH
PAYEXPRESS
FG FINANCIAL
FINASWIDE
ICONNEX
INSULAR SAVERS
MAYBRIDGE
METRO FASTBET
NORKIS
OPTIMUM BANK
PESOPAY
PHILSMILE
SOUTH ASIALINK
WORLD VISION

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

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	60,000,000.00
Retained earnings	121,077,748.00
Sub-total	181,077,748.00

2. Tier 2 capital and a breakdown of its components

Tier 2 Capital and a breakdown of its components	
General loan loss provision	5,074,173.13
Total Tier 2 Capital	5,074,173.13

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

Deductions from Tier 1 (50%)	
Deferred tax asset, net of deferred tax liability	12,945,860.61
Deductions from Tier 2 (50%)	
Deductions from Tier 2 Capital	0.00

4. Total qualifying capital

Total qualifying capital	177,385,469.53

5. Capital requirements for credit risk

TOTAL CREDIT RISK WEIGHTED ASSETS	MULTIPLY BY	CAPITAL REQUIREMENT
966,608,808.31	10%	96,660,880.832

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
109,762,457.79	10%	10,976,245.78

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

Total Capital Adequacy Ratio	**16.49%**
Total Tier 1 CAR	**16.01%**

Alas Oplas & Co., CPAs

RURAL BANK OF SAN MATEO (ISABELA), INC.
SAN MATEO, ISABELA – PHILIPPINES

FINANCIAL STATEMENTS
DECEMBER 31, 2023
(With Comparative Figures for 2022)

Alas Oplas & Co., CPAs
7/F Philippine AXA Life Centre, 1286 Sen. Gil Puyat Avenue, Makati City Philippines 1200
Phone No.: (632) 7116-4366 | Email: aocheadoffice@alasoplas.com | www.alasoplascpas.com

Offices:
Makati Alabang Cavite Ortigas Paranaque Bulacan Isabela Nueva Ecija Bacolod Iloilo Bohol Legazpi

C O N T E N T S

RURAL BANK OF SAN MATEO
(ISABELA), INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **RURAL BANK OF SAN MATEO (ISABELA), INC.**, (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Alas, Oplas & Co., CPAs and Diaz Murillo Dalupan and Company, the independent auditors appointed by the stockholders for the years ended December 31, 2023 and 2022, respectively, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of *such audit.*

PATRICIA ROSARIO MARIA G. REMIJAN
Chairman of the Board

KATRINA MARIE P. PILAPIL
President/CEO

RUTH M. CALIMAG
Chief Financial Officer/Treasurer

Signed this 18th day of April, 2024.

Head office: **San Mateo, Isabela**
Tel. No.: (078) 323-0817
Tel. No.: (078) 323-0815
New Accounts: CP No.: 09175856033
Cash Dept. : CP No.: 09178723364
Loan Dept. : CP No.: 09175313952
ALfonso Lista, Ifugao Branch
Loans Dept. CP No.: 09175856031
Cash Dept. CP No.: 09778175764

Email address: rbsanmateoisa@rbap.org

Luna, Branch
Cash Dept. CP No.: 09175856032
Loans Dept. CP No.: 09175034302
CP No.: 09778175764
Ramon, Branch
CP No.: 09175298214
San Manuel, Branch
CP No.: 09175298152

Alas Oplas & Co., CPAs
7/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 7116-4366
Email: aocheadoffice@alasoplas.com
Website: www.alasoplascpas.com

Independent Member of
B K R International

INDEPENDENT AUDITORS' REPORT

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

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 of December 31, 2023, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standard (PFRS).

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2018, except for 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.

Following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank adopted Appendix 15 of the MORB in assessing and measuring impairment for its credit exposures. Appendix 15 of the MORB provides guidelines for provisioning which is inconsistent with PFRS 9 and thus constitutes a departure from PFRS. As of December 31, 2023 and 2022, the Bank's total allowance on credit losses amounted to ₱50.98 million and ₱43.85 million, as disclosed in Note 10. As the Bank has not implemented the ECL requirements of PFRS 9, any adjustments to the amounts of surplus, allowance for credit losses and related deferred tax assets as at December 31, 2023 and 2022 have not been determined.

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

Other Matter

The financial statements of the Bank as of December 31, 2022, were audited by another auditor whose report dated April 17, 2023, expressed a qualified opinion on those statements.

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

Management is responsible for the preparation of the financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulation No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 30 and Revenue Regulation No. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 29 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF SAN MATEO (ISABELA), INC.** 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.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025
BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

RYAN A. SABUG
Partner
CPA License No. 0111183
BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 10075665, issued on January 2, 2024, Makati City

April 18, 2024
Makati City, Philippines

RURAL BANK OF SAN MATEO (ISABELA), INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
ASSETS			
Cash and other cash items	8	**9,039,343**	13,917,555
Due from Bangko Sentral ng Pilipinas	8	**27,214,721**	27,416,454
Due from other banks	8	**332,668,430**	289,136,667
Investment securities at amortized cost	9	**103,797,984**	85,570,289
Loans and other receivables – net	10	**614,473,677**	629,166,386
Bank premises, furniture, fixtures and equipment – net	11	**29,700,732**	27,623,013
Investment properties – net	12	**1,931,528**	4,856,345
Deferred tax asset	24	**12,945,860**	10,417,689
Other assets – net	13	**5,499,256**	14,314,431
TOTAL ASSETS		**1,137,271,531**	1,102,418,829
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	14	**934,275,318**	914,718,852
Retirement benefit obligation	16	**5,816,624**	3,487,281
Accrued and other liabilities	15	**16,229,030**	26,282,898
Income tax payable		**1,510,027**	970,363
Total Liabilities		**957,830,999**	945,459,394
EQUITY			
Capital stock	18	**60,000,000**	47,500,000
Deposit for stock subscription	18	**300**	–
Surplus free	19	**107,733,287**	95,215,746
Surplus reserves	19	**13,344,461**	13,727,630
Accumulated actuarial gain (losses) – net	16	**(1,637,516)**	516,059
Total Equity		**179,440,532**	156,959,435
TOTAL LIABILITIES AND EQUITY		**1,137,271,531**	1,102,418,829

See Notes to Financial Statements.

RURAL BANK OF SAN MATEO (ISABELA), INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
INTEREST INCOME			
Loans and other receivables	10	**81,390,325**	77,414,745
Due from other banks	8	**1,720,030**	1,311,210
Investment securities at amortized cost	9	**5,319,302**	2,899,918
		88,429,657	81,625,873
INTEREST EXPENSE			
Deposit liabilities	14	**(7,823,963)**	(7,669,524)
Others	15	**(42,521)**	–
		(7,866,484)	(7,669,524)
NET INTEREST INCOME		**80,563,173**	73,956,349
OTHER INCOME	20	**22,621,898**	11,388,696
TOTAL OPERATING INCOME		**103,185,071**	85,345,045
OPERATING EXPENSES	21	**(59,681,723)**	(56,032,000)
NET OPERATING INCOME BEFORE PROVISIONS		**43,503,348**	29,313,045
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	23	**(20,049,330)**	(14,061,369)
PROFIT BEFORE TAX		**23,454,018**	15,251,676
INCOME TAX EXPENSE	24	**(5,569,646)**	(3,812,919)
PROFIT		**17,884,372**	11,438,757
ITEM THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS):			
Actuarial gain (loss) on retirement benefit obligation – net of tax	16	**(2,153,575)**	3,152,461
TOTAL COMPREHENSIVE INCOME		**15,730,797**	14,591,218

See Notes to Financial Statements.

RURAL BANK OF SAN MATEO (ISABELA), INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Capital Stock (Note 18)	**Deposit for Stock Subscription** (Note 18)	**Surplus Free** (Note 19)	**Surplus Reserves** (Note 19)	**Accumulated Actuarial Gain (Losses) on Retirement Benefit Obligation** (Note 16)	**Total**
Balance at December 31, 2021	47,500,000	–	87,776,989	13,740,293	(2,636,402)	146,380,880
Transaction with the owners:						
Cash dividends	–	–	(4,000,000)	–	–	(4,000,000)
Comprehensive income:						
Profit	–	–	11,438,757	–	–	11,438,757
Reversal of appropriation	–	–	–	(12,663)	–	(12,663)
Actuarial gain for the year	–	–	–	–	3,152,461	3,152,461
	–	–	11,438,757	(12,663)	3,152,461	14,578,555
Balance at December 31, 2022	47,500,000	–	95,215,746	13,727,630	516,059	156,959,435
Transactions with the owners:						
Issuance of shares	12,500,000	(12,500,000)	–	–	–	–
Reclassification of deposit for stock subscription from liability	–	12,500,300	–	–	–	12,500,300
Cash dividends	–	–	(5,750,000)	–	–	(5,750,000)
	12,500,000	300	(5,750,000)	–	–	6,750,300
Comprehensive income:						
Profit	–	–	17,884,372	–	–	17,884,372
Reversal of appropriation	–	–	383,169	(383,169)	–	–
Actuarial loss for the year	–	–	–	–	(1,856,316)	(1,856,316)
Impact of create law (2021)	–	–	–	–	(297,259)	(297,259)
	–	–	18,267,541	(383,169)	(2,153,575)	15,730,797
Balance at December 31, 2023	**60,000,000**	**300**	**107,733,287**	**13,344,461**	**(1,637,516)**	**179,440,532**

See Notes to Financial Statements.

RURAL BANK OF SAN MATEO (ISABELA), INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**23,454,018**	15,251,676
Adjustments for:			
Interest income	8,9	**(7,039,332)**	(4,211,128)
Provision for credit losses	23	**20,049,330**	14,061,369
Gain on sale/disposal of investment property	12,20	**(7,039,719)**	(153,000)
Interest expense – lease liability	15	**200,064**	112,201
Retirement benefit expense	16	**1,598,324**	2,141,114
Depreciation and amortization	22	**2,997,981**	2,955,610
Operating cash flows before working capital changes		**34,220,666**	30,157,842
Decrease (Increase) in operating assets:			
Loans and other receivables		**1,494,890**	(56,211,414)
Other assets		**8,461,908**	5,724,534
Increase in operating liabilities:			
Deposit liabilities		**19,556,466**	33,834,765
Accrued expenses and other liabilities		**2,850,918**	2,617,011
Cash generated from operations		**66,584,848**	16,122,738
Interest received		**4,780,414**	4,211,128
Contributions to retirement fund	16	**(1,744,069)**	(2,516,969)
Retirement benefits paid from book reserve	16	**–**	(169,475)
Income tax paid		**(5,826,666)**	(6,425,321)
Net cash generated from operating activities		**63,794,527**	11,222,101
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of investment securities at amortized cost	9	**84,258,773**	89,985,949
Acquisition of investment securities at amortized cost	9	**(102,486,468)**	(88,912,793)
Acquisition of bank premises, furniture fixture and equipment	11	**(4,672,780)**	(591,736)
Proceeds from sale of investment property	12	**3,912,313**	250,000
Net cash generated from (used in) investing activities		**(18,988,162)**	731,420
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from deposit for stock subscription	15	**–**	3,018,600
Payment of lease liability – principal and interest	15	**(604,547)**	(470,894)
Dividends paid	19	**(5,750,000)**	(4,000,000)
Net cash used in financing activities		**(6,354,547)**	(1,452,294)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**38,451,818**	10,501,227
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF 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
CASH AND CASH EQUIVALENTS AT THE END OF YEAR			
Cash and other cash items	8	**9,039,343**	13,917,555
Due from Bangko Sentral ng Pilipinas	8	**27,214,721**	27,416,454
Due from other banks	8	**332,668,430**	289,136,667
		368,922,494	330,470,676

See Notes to Financial Statements.

In Philippine Peso

1. CORPORATE INFORMATION

1.01 Company Profile

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, special savings deposit, demand deposit, and ATM savings account. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans.

The Bank's registered office address is located at RBSMI Building, National Highway, Barangay 03, 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

1.02 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 18, 2024.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

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. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standards:

a. PFRS 9 Financial Instruments – For impairment, 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.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI).

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All presented financial information has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards and Interpretations Effective on January 1, 2023

The Bank applied for the first-time the following standards and amendments, which are effective for annual periods beginning on or after 1 January 2023, unless otherwise stated.

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

The overall objective of PFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. PFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)

- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard had no impact on the Bank's financial statements as the Bank does not have any contracts that meet the definition of an insurance contract under PFRS 17.

3.01.02 Amendments to PAS 1 Presentation of Financial Statements and PFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in PAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in PAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

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

3.01.03 Amendments to PAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. Following the amendments to PAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

The amendments had no impact on the Bank's financial statements.

3.01.04 Amendments to PAS 12 Income Taxes—International Tax Reform—Pillar Two Model Rules

The amendments to PAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

3.01.05 Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates
The amendments to PAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.

The amendments had no impact on the Bank's financial statements.

3.02 New and Amended Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 Amendments to PAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current
The amendments to PAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to PAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

3.02.02 Amendments to PAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants
The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

3.02.03 Amendments to PAS 7 Statement of Cash Flows and PFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to PAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, PFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

3.02.04 Amendment to PFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to PFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in PFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in PFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in PFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying PFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with PAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied PFRS 16.

3.03 Deferred Effectivity

3.03.01 Amendments to PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

4. MATERIAL ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

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

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

'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.

4.01.01 Financial Assets

Initial Recognition and Measurement
Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

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

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 of December 31, 2023 and 2022, the Bank's cash and cash equivalents, due from BSP, due from other banks, financial assets at amortized cost and loans and receivables are classified under this category as disclosed in Notes 8, 9 and Note 10.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, check and other cash items, cash in bank, and short-term placements. 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 receivable
Loans receivable include those arising from direct loans to members including officers and employees. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

Investment securities at amortized cost
Investment securities at amortized cost include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as at amortized cost if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Investment securities at amortized cost are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in the statement of comprehensive income when the investment securities at amortized cost are derecognized and impaired, as well as through the amortization process.

Financial assets at FVOCI

Debt Instruments at FVOCI
For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) 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, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2023 and 2022, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI
For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation.* This option is available and made on an instrument-by-instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2023 and 2022, the Bank does not have equity securities at FVOCI.

Financial Assets at FVPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not “solely for payment of principal and interest”, and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Bank may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2023 and 2022, the Bank does not have equity securities at FVPL.

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

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In Philippine Peso

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the re-classification date.

Impairment
At the end of the reporting period, the Bank assess 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 look 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 as follows:

<u>Individually Assessed Credit Exposure</u>
Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for impairment losses based on the number of days of missed payment as follows:

(a) For unsecured loans and other credit exposures

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

(b) For secured loans and other credit exposures

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

<u>Collectively Assessed Credit Exposures</u>
Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for impairment losses based on the number of days of missed payment as follows:

In Philippine Peso

(a) For unsecured loans and other credit exposures

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

(b) For secured loans and other credit exposures

No. of Days Unpaid/ with Missed Payment	Classification	ACL (%)		Stage
		Other types of collateral	Security by real estate	
31 – 90 days	Substandard (Underperforming)	10	10	2
91 – 120 days	Substandard (Non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 – 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.

Derecognition

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

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

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

4.01.02 Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

Classification

The Bank classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2023 and 2022, the Bank does not have liabilities at FVPL.

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, 2023 and 2022, the Bank's deposit liabilities and accrued and other liabilities (except statutory payables) are classified under this as disclosed in Notes 14 and 15.

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:
- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

4.02 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. As no finite useful life for land can be determine, related carrying amount are not depreciated. All other bank premises, furniture, fixture and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Building	–	20 years
Leasehold improvements	–	5 years
Transportation equipment	–	3 to 5 years
Furniture, fixtures and equipment	–	2 to 5 years

Amortization of leasehold improvements is computed over the lease term or the estimated useful life of the improvement, whichever is shorter. The estimated useful life of leasehold improvement is five (5) years depending on the nature of the improvement.

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

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

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

4.03 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes land and building acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 years.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value.

Depreciation and impairment loss are recognized in the same manner as in the premises, furniture, fixtures and equipment.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment properties is recognized in profit or loss and is presented as gain on sale of investment properties under other income account in the year of retirement

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

4.04 Other Assets

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

4.05 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation.

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

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

4.06 Revenue Recognition

4.06.01 Revenue Recognition for Revenues within the scope of PFRS 15
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.

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

<u>Fees and Commissions</u>
Theses income arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions with customers which are recognized when the services has been performed.

<u>Penalties</u>
These are charges to borrowers who are in default of their payment.

<u>Other Income</u>
Other income arises from gain on sale of financial and non-financial assets, bank fees and charges, bank commissions and miscellaneous income. Other income is recognized upon completion of the earning process and the collectability is reasonably assured.

<u>Gain on Asset Sold</u>
Profit from asset sold is recognized when all the following conditions are satisfied:
- the Bank has transferred to the buyer the significant risks and rewards of ownership of the asset;
- the Bank retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the assets sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Profit from assets sold encompasses gain on disposal of investment properties and bank premises, furniture, fixtures and equipment.

<u>4.06.02 Revenue Recognition for Revenues outside the scope of PFRS 15</u>
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

<u>Interest on Loans</u>
Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest, where payments are made on a monthly basis, is recognized on a monthly basis on payment dates using the effective interest method.

The Bank shall only charge interest based on the outstanding balance of a loan. For a loan where the principal is payable in instalments, interest per instalment shall be calculated based on the outstanding balance of the loan.

<u>Interest Income on Bank Deposits and Investment Securities at Amortized Cost</u>
Interest on bank deposits, financial assets at FVOCI are recognized in profit or loss using the effective interest method.

4.07 Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:
- On the basis of a direct association between costs incurred and the earning of specific items of income;

- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and 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 statement of financial position as an asset.

4.08 Leases – Bank as Lessee

4.08.01 The Bank as Lessee

For any new contracts entered into on or after January 1, 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three (3) key evaluations which are whether:

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

Recognition and Initial Measurement

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

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

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

Subsequent Measurement

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

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

4.09 Employee Benefits

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

4.09.01 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.

4.09.02 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 years ended December 31, 2023 and 2022, as disclosed in Note 16.

4.10 Income Tax

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

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

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

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, 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.

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

4.11 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.

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI'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 BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI 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 BSFI 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 BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

Related party transactions (RPTs) shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4.12 Equity

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

Deposit for stock subscription refers to funds received as deposits for stock subscription that meets the conditions for recognition as equity provided in Section 123 of the MORB.

Surplus free includes all current and prior period results of operations as reported in the statement of income.

Surplus reserves pertain to reserve set aside by Bank for contingencies and corporate responsibilities.

Accumulated actuarial gains (losses) on post-employment defined benefit plan pertains to the net gains (losses) arising from remeasurements of post-employment defined benefit obligation.

4.13 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.14 Events After the End of the Reporting Period

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

5. 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.

5.01 Critical Judgments in Applying Accounting Policies

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

5.01.01 Classification of financial assets
The Bank follows the guidance of PFRS 9 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

5.01.02 Determining whether or not a contract contains a lease
At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset
An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Bank, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to obtain substantially all of the economic benefits from use of the identified asset
To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has the right to obtain substantially all of the economic benefits.

If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

<u>Right to direct the use of the identified asset</u>
The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.01.03 Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (applicable beginning 2018)
In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of financial assets give rise on specific dates to cash flows that are solely payments of principal on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flow meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

5.01.04 Classification of Financial Assets
The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the “SPPI”). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

5.01.05 Distinction Between Investment Properties and Owner-managed Properties
The Bank determines whether a property qualifies as investment property. In making its judgement, the Bank considers whether the property generated cash flows largely independently of the other assets held. Owner-managed properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank’s operations.

5.01.06 Classifying Real and Other Properties Acquired (ROPA)
The Bank acquires properties in settlement of loans through foreclosure or dation in payment. These properties are recognized in accordance with Section 382 of the MORB, as follows:

1. Land and buildings shall be accounted for using the cost model under PAS 40 “Investment Property”;
2. Other non-financial assets shall be accounted for using the cost model under PAS 16 “Property Plant and Equipment”, provided that these are held for use in the production or supply of goods or services, or for administrative purposes; and
3. PFRS 5 “Non-Current Assets Held for Sale” when the properties comply with the provisions of the standard.

Notwithstanding the above provisions, it is a regulatory expectation for the Bank to dispose these properties immediately.

5.01.07 Recognition of Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 4.05 and relevant disclosures are presented in Note 27.

5.02 Key Sources of Estimation Uncertainties

The following are the key assumptions concerning the futures, and other key sources of estimation uncertainty at the end of the reporting period, that have significant risks of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period.

5.02.01 Estimating Allowance for Expected 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.

In 2023 and 2022, provision for credit losses on financial assets amounted to ₱20,049,330 and ₱14,061,369, respectively as disclosed in Note 23.

5.02.02 Estimating Useful Lives of Bank's Bank Premises, Furniture, Fixtures and Other Equipment
For the purposes of providing for depreciation and amortization, the Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use; however, for leasehold improvement, the Bank uses the estimated useful life of the asset or the lease term, whichever is shorter. The estimated useful lives of the bank premises, furniture, fixture and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of the Bank's premises, furniture, fixtures and equipment is analysed in Note 11. Based on management's assessment as at December 31, 2023 and 2022, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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. As of December 31, 2023 and 2022, the carrying amounts of bank premises, furniture, fixtures and equipment as disclosed in Note 11 amounted to ₱29,700,732 and ₱27,623,013, respectively.

The carrying amounts of investment properties amounted to ₱1,931,528 and ₱4,856,345, respectively, as disclosed in Note 12.

5.02.03 Estimating Impairment Losses on Non-financial Assets
In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In Philippine Peso

No impairment loss was recognized on bank premises, furniture fixtures, and equipment in 2023 and 2022, as disclosed in Notes 11. Impairment losses on investment properties recognized as of 2023 and 2022 amounted to ₱1,316,694, as disclosed in Note 12.

5.02.04 Determining Realizable Amount of Deferred Tax Assets
The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets as recognized at December 31, 2023 and 2022 will be utilized in the coming years, as disclosed in Note 24.

5.02.05 Valuation of Post-employment Defined 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 others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 16.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank is exposed to a variety of financial risks which result from both its operating and investing activities. The Bank's BOD focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

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

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

	Notes		**2023**		2022
Financial assets at Cost/Amortized Cost					
Cash and other cash items	8	₱	**9,039,343**	₱	13,917,555
Due from BSP	8		**27,214,721**		27,416,454
Due from other banks	8		**332,668,430**		289,136,667
Investment securities at amortized cost	9		**103,797,984**		85,570,289
Loans and other receivables – net	10		**614,473,677**		629,166,386
Other assets*	13		**2,739,520**		3,151,658
		₱	**1,089,933,675**	₱	1,048,359,009
Financial liabilities at Cost/Amortized Cost					
Deposit liabilities	14	₱	**934,275,318**	₱	914,718,852
Accrued and other liabilities**	15		**13,809,715**		10,804,135
		₱	**948,085,033**	₱	925,522,987

***excluding non-financial assets amounting to ₱2,759,736 and ₱11,162,773 in 2023 and 2022, respectively.*
****excluding non-financial liabilities amounting to ₱2,419,315 and ₱15,478,763 in 2023 and 2022, respectively.*

In Philippine Peso

6.02 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the BOD, which undertakes several functions with respect to credit risk management.

The Bank's accounts with other banks, loans and receivables, and investment securities are actively monitored to avoid significant exposures to unwarranted credit risk. Loans are subject to approval by the credit committee, executive committee and BOD, depending on the amounts.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

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

Generally, the maximum credit risk exposure of the financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in detailed analysis provided in the notes to the financial statements) as summarized below:

	Notes	**2023**	2022
Cash and other cash items*	8	₱ **334,795**	₱ 614,362
Due from BSP	8	**27,214,721**	27,416,454
Due from other banks	8	**332,668,430**	289,136,667
Investment securities at amortized cost	9	**103,797,984**	85,570,289
Loans and other receivables**	10	**678,043,704**	683,608,425
Other assets***	13	**3,199,711**	3,367,414
		₱ 1,145,259,345	₱ 1,089,713,611

excluding cash on hand amounting to ₱8,704,548 and ₱13,303,193 in 2023 and 2022, respectively.
****gross of unamortized discount amounting to ₱12,588,480 and ₱10,590,189 in 2023 and 2022, respectively, and allowance for credit losses amounting to ₱50,981,547 and ₱43,851,850 in 2023 and 2022, respectively.***
*****excluding non-financial assets amounting to ₱2,759,736 and ₱11,162,773 in 2023 and 2022, respectively, and gross of allowance for credit losses amounting to ₱460,191 and ₱215,756 in 2023 and 2022, respectively.***

The Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties.

In Philippine Peso

6.02.02 Credit Quality of Financial Assets

The following tables show the credit quality of loans and investment securities, gross of allowance for credit losses, as of December 31, 2023 and 2022. All advances to banks and investment securities are classified as Stage 1 in 2023 and 2022.

2023	**Neither Past Due nor Impaired**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and other cash items*	334,795	–	–	334,795
Due from BSP	27,214,721	–	–	27,214,721
Due from other banks	332,668,430	–	–	332,668,430
Investment securities at amortized cost	103,797,984	–	–	103,797,984
Loans and other receivables**	572,950,480	84,611,446	7,893,298	665,455,224
Other assets***	3,199,711	–	–	3,199,711
	1,040,166,121	**84,611,446**	**7,893,298**	**1,132,670,865**

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***	3,367,414	–	–	3,367,414
	983,795,371	81,359,247	13,968,804	1,079,123,422

**excluding cash on hand amounting to ₱8,704,548 and ₱13,303,193 in 2023 and 2022, respectively.*
***net of unamortized interest discounts amounting to ₱12,588,480 and ₱10,590,189 in 2023 and 2022, respectively, and gross of allowance for credit losses amounting to ₱50,981,547 and ₱43,851,850 in 2023 and 2022, respectively.*
****excluding non-financial assets amounting to ₱2,759,736 and ₱11,162,773 in 2023 and 2022, respectively, and gross of allowance for credit losses amounting to ₱460,191 and ₱215,756 in 2023 and 2022, 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 until the borrower has sufficiently exhibited that the loan will be fully paid.

Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

In Philippine Peso

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired.

6.02.03 Aging Analysis
An aging analysis of the Bank's loans receivable as of December 31, 2023 and 2022 are as follows: (net of unamortized discount)

		2023		2022
Outstanding receivables:				
Current accounts	₱	**572,950,480**	₱	577,690,185
Past due accounts:				
1 – 30 days past due		**5,917,810**		3,577,086
31 – 60 days past due		**3,180,125**		11,166,326
61 – 90 days past due		**2,638,098**		4,591,983
over 90 days past due*		**80,768,711**		75,992,656
	₱	**665,455,224**	₱	673,018,236

**includes items in litigation amounting to ₱2,730,190 and ₱ 1,717,160 in 2023 and 2022, respectively.*

6.03 Liquidity Risk

Liquidity risk is the risk that sufficient funds may not be available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

As of December 31, 2023 and 2022, minimum liquidity ratio of the Bank is 60.44% and 53.68%, respectively.

In Philippine Peso

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2023 and 2022 based on undiscounted contractual cash flows.

2023	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	₱ 9,039,343	₱ –	₱ –	₱ –	₱ 9,039,343
Due from BSP	27,214,721	–	–	–	27,214,721
Due from other banks	318,053,841	14,614,589	–	–	332,668,430
Investment securities at amortized cost	–	58,177,643	20,620,341	25,000,000	103,797,984
Loans and other receivables*	51,361,202	209,080,928	330,955,828	86,645,746	678,043,704
Other assets**	3,199,711	–	–	–	3,199,711
	₱ 408,868,818	**281,873,160**	**351,576,169**	**111,645,746**	**₱ 1,153,963,893**
Financial Liabilities:					
Deposit liabilities	₱ 739,744,699	₱ 183,573,958	₱ 10,956,661	₱ –	₱ 934,275,318
Accrued and other liabilities***	13,809,715	–	–	–	13,809,715
	₱ 753,554,414	**₱ 183,573,958**	**₱ 10,956,661**	**–**	**₱ 948,085,033**

In Philippine Peso

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*		47,012,661		203,716,098		378,530,432		54,349,234		683,608,425
Other assets**		3,367,414		–		–		–		3,367,414
	₱	357,056,782	₱	277,080,356	₱	389,530,432	₱	79,349,234	₱	1,103,016,804

Financial Liabilities:										
Deposit liabilities	₱	847,836,559	₱	55,316,035	₱	11,566,258	₱	–	₱	914,718,852
Accrued and other liabilities***		10,804,135		–		–		–		10,804,135
	₱	858,640,694	₱	55,316,035	₱	11,566,258	₱	–	₱	925,522,987

***gross of unamortized discount amounting to ₱12,588,480 and ₱10,590,189 in 2023 and 2022, respectively and allowance for credit losses amounted to ₱50,981,547 and ₱ 43,851,850 in 2023 and 2022, respectively.*

****excluding non-financial assets amounting to ₱2,759,736 and ₱11,162,773 in 2023 and 2022, respectively, and gross of allowance for credit losses amounting to ₱460,191 and ₱215,756 in 2023 and 2022, respectively*

*****excluding non-financial liabilities amounting to ₱2,419,315 and ₱15,478,763 in 2023 and 2022, respectively.*

In Philippine Peso

6.04 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 is exposed to interest rate risk since its financial assets and financial liabilities have fixed and variable rates.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 10% increase or decrease is used when reporting interest rate risk internally to key management personnel and this represents management's assessment of the reasonably possible changes in interest rates.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

7.01 Carrying Amounts and Fair Values by Category

The following table presents a comparison by category of carrying amounts and estimated fair value of the Bank's financial instruments as of December 31, 2023 and 2022:

	Carrying Value	**Fair Value**			
2023		**Quoted (Unadjusted) Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS					
Investment securities at amortized cost	103,797,984	–	103,797,984	–	103,797,984
Loans and other receivables – net	614,473,677	–	614,473,677	–	614,473,677
	718,271,661	**–**	**718,271,661**	**–**	**718,271,661**
LIABILITIES					
Deposit liabilities	**934,275,318**	**–**	**934,275,318**	**–**	**934,275,318**

In Philippine Peso

2022	Carrying Value	Fair Value: Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS					
Investment securities at amortized cost	85,570,289	–	85,570,289	–	85,570,289
Loans and other receivables – net	629,166,386	–	629,166,386	–	629,166,386
	714,736,675	–	714,736,675	–	714,736,675
LIABILITIES					
Deposit liabilities	914,718,852	–	914,718,852	–	914,718,852

Cash and other cash item, Due from BSP, Due from other banks, Investment securities at amortized cost and Other assets, Accrued and other liabilities
The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

Loans and other receivables
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank’s current incremental lending rates for similar types of loans and receivables.

Deposit liabilities and Bills payable
Fair values are estimated using the discounted cash flow methodology using the incremental borrowing rates for similar borrowings with maturities consistent with those remaining liability being valued.

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

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

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

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

In Philippine Peso

For financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There were neither transfers between Levels 1 and 2 instruments in both years.

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

Fair Value Measurement for Non-financial Assets
The fair value of the Bank's Investment Properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The fair value as at December 31, 2023 and 2022 amounting to ₱8,167,735 and ₱21,611,757, respectively, as disclosed in Note 12, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

		2023		2022
Cash and other cash items:				
Cash on hand	₱	**8,704,548**	₱	13,303,193
Checks and other cash items		**334,795**		614,362
		9,039,343		13,917,555
Due from BSP		**27,214,721**		27,416,454
Due from other banks		**332,668,430**		289,136,667
		359,883,151		316,553,121
	₱	**368,922,494**	₱	330,470,676

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

Due from BSP represents the aggregate balance of noninterest-bearing account maintained with BSP in compliance with its requirement for rural banks to maintain regular and liquidity reserves on savings and time deposits and on certain deposit and deposit substitute liabilities.

In Philippine Peso

The Bank earned interest income from deposits with other banks amounting to ₱1,720,030 and ₱1,311,210 in 2023 and 2022, respectively, and is presented as interest income on due from other banks in the statements of comprehensive income.

9. INVESTMENT SECURITIES AT AMORTIZED COST

The Bank has investments in debt securities classified as investment securities at amortized cost.

This account consists of:

		2023		2022
Retail Treasury Bonds	₱	**46,000,000**	₱	46,649,000
Treasury Bills		**60,143,000**		40,000,000
Less: Unamortized Discount		**(2,345,016)**		(1,078,711)
	₱	**103,797,984**	₱	85,570,289

Movements in the account are disclosed below:

		2023		2022
Balance at January 1	₱	**85,570,289**	₱	86,643,445
Additions		**102,486,468**		88,912,793
Maturities		**(84,258,773)**		(89,985,949)
	₱	**103,797,984**	₱	85,570,289

Investment securities at amortized cost bears annual interest rate ranging from 2.63% to 6.52% in 2023 and 2022 and with maturity period ranging from 5 months to 25 years.

Interest earned on investment securities at amortized cost amounted to ₱5,319,302 and ₱2,899,918 for the years ended December 31, 2023 and 2022, respectively.

No impairment was recognized as of and for the years ended December 31, 2023 and 2022.

Under current bank regulations, investments in bonds and other debt instruments shall not exceed 50% of the adjusted statutory net worth plus 40% of total deposits liabilities. As of December 31, 2023 and 2022, the Bank is within the prescribed limit.

In Philippine Peso

10. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

	2023	2022
Current loans	₱ **570,395,096**	₱ 580,856,941
Past due loans	**83,763,210**	87,525,810
Under litigation	**2,730,190**	1,717,160
Total loans receivable	**656,888,496**	670,099,911
Sales contract receivable	**15,194,286**	8,199,286
Accrued interest receivable	**5,960,922**	5,309,228
	678,043,704	683,608,425
Unamortized discount		
Unamortized discount – loans receivable	**(9,455,661)**	(9,039,942)
Unamortized discount – sales contract receivable	**(3,132,819)**	(1,550,247)
	(12,588,480)	(10,590,189)
Total loans and other receivables – amortized cost	**665,455,224**	673,018,236
Allowance for credit losses		
Loans receivable	**(47,232,737)**	(40,133,873)
Sales contract receivable	**(3,748,810)**	(3,717,977)
	(50,981,547)	(43,851,850)
Total loans and other receivables – net	₱ **614,473,677**	₱ 629,166,386

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for impairment losses and unearned interest and discounts.

As of December 31, 2023 and 2022, there are no loans receivable used as collateral for bills payable.

Loans and receivables bear average interest rates of 2% to 22% and 2% to 24% per annum in 2023 and 2022, respectively.

Total interest earned on loans and other receivable for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Loans receivable	₱ **80,387,441**	₱ 77,296,497
Sales contract receivable	**1,002,884**	118,248
	₱ **81,390,325**	₱ 77,414,745

Breakdown of sales contract receivables is as follows:

	2023	2022
Performing	₱ **7,450,000**	₱ 763,333
Non-performing	**7,744,286**	7,435,953
	₱ **15,194,286**	₱ 8,199,286

In Philippine Peso

The movement of the expected credit losses on loans and other receivables at December 31, 2023 and 2022 are summarized as follows:

		2023		2022
At January 1	₱	**43,851,850**	₱	37,552,897
Provision		**19,804,895**		14,061,369
Write-off		**–**		(1,166,782)
Reversal		**(12,675,198)**		(6,595,634)
	₱	**50,981,547**	₱	43,851,850

Allowance for credit losses of loans receivable is comprised of the following:

		2023		2022
Specific loan loss	₱	**42,158,564**	₱	34,528,431
General loan loss		**5,074,173**		5,605,442
	₱	**47,232,737**	₱	40,133,873

The allowance for credit losses which include both specific and general loan loss reserves, represent management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector.

The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

10.01 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, Section 304, 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 instalment 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.

In Philippine Peso

10.02 Non-Performing Loans

As of December 31, 2023 and 2022, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows (net of unamortized discount):

		2023		2022
Total Non-performing loans	₱	**80,768,711**	₱	75,992,656
Less: Non-performing loans covered by allowance for credit losses		**37,900,592**		31,192,891
	₱	**42,868,119**	₱	44,799,765

Information regarding the Bank's non-performing loans (based on Section 304 of the MORB) are as follows:

	2023	2022
Ratio of gross NPLs to gross TLP (%)	**12.48%**	11.50%
Ratio of net NPLs to gross TLP (%)	**6.62%**	6.78%
Ratio of total allowance for credit losses to gross NPLs (%)	**58.48%**	52.81%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**52.20%**	45.44%

Section 304 of the MORB 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.

In Philippine Peso

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

A reconciliation of the carrying amounts at the beginning and end of years 2023 and 2022, and the gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment are shown below.

2023		Land	Building and Improvements	Building under Construction	Transportation and Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Right-of-Use Asset	Total
Cost:									
Balance, January 1	₱	5,836,879	27,767,994	–	9,615,407	2,837,854	10,487,619	3,741,219	60,286,972
Additions		–	95,480	875,000	3,209,100	17,441	475,759	–	4,672,780
Additions to PFRS 16		–	–	–	–	–	–	146,975	146,975
Adjustment to expired contracts		–	–	–	–	–	–	(765,315)	(765,315)
Adjustments		–	–	–	–	–	–	237,567	237,567
Balance, December 31	**₱**	**5,836,879**	**27,863,474**	**875,000**	**12,824,507**	**2,855,295**	**10,963,378**	**3,360,446**	**64,578,979**
Accumulated depreciation:									
Balance, January 1	₱	–	10,250,737	–	9,298,139	2,379,067	9,581,238	1,154,778	32,663,959
Depreciation (Note 22)		–	1,162,716	–	477,389	73,618	696,802	536,028	2,946,553
Adjustment to expired contracts		–	–	–	–	–	–	(765,315)	(765,315)
Adjustments		–	–	–	–	–	–	33,050	33,050
Balance, December 31	**₱**	**–**	**11,413,453**	**–**	**9,775,528**	**2,452,685**	**10,278,040**	**958,541**	**34,878,247**
Carrying amount	**₱**	**5,836,879**	**16,450,021**	**875,000**	**3,048,979**	**402,610**	**685,338**	**2,401,905**	**29,700,732**

In Philippine Peso

2022		Land	Building and Improvements	Transportation and Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Right-of-Use Asset	Total
Cost:								
Balance, January 1	₱	5,836,879	27,767,994	9,615,407	2,762,854	10,587,283	1,202,194	57,772,611
Additions		–	–	–	75,000	516,736	–	591,736
Additions to PFRS 16		–	–	–	–	–	2,539,025	2,539,025
Write-off		–	–	–	–	(616,400)	–	(616,400)
Balance, December 31	₱	5,836,879	27,767,994	9,615,407	2,837,854	10,487,619	3,741,219	60,286,972
Accumulated depreciation:								
Balance, January 1	₱	–	9,090,417	9,010,928	2,207,146	9,386,763	766,344	30,461,598
Depreciation (Note 22)		–	1,160,320	287,211	171,921	808,698	388,434	2,816,584
Write-off		–	–	–	–	(614,223)	–	(614,223)
Balance, December 31	₱	–	10,250,737	9,298,139	2,379,067	9,581,238	1,154,778	32,663,959
Carrying amount	₱	5,836,879	17,517,257	317,268	458,787	906,381	2,586,441	27,623,013

Adjustments pertain to changes in future lease payments of the leases.

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, 2023 and 2022, the Bank is compliant with such regulation.

Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2023 and 2022. Acquisition of bank premises, furniture, fixtures and equipment for 2023 and 2022 were paid in cash.

Depreciation expense is presented as separate component of operating expenses under non-interest expenses in the statements of comprehensive income in 2023 and 2022, respectively, as disclosed in Note 22.

In Philippine Peso

No bank premises, furniture, fixture and equipment were used as collateral for liabilities as at December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

The following are the lease agreements entered into by the Bank and outstanding as of December 31, 2023 and 2022.

		Lease Term			
Location of leased property	**Leased Property**	**Start of term**	**End of term**	**Lease Payment**	**Escalation Clause**
Ramon, Isabela	Building	7/01/2022	7/01/2027	22,000	5% every year
San Mateo, Isabela	Lot	5/01/2022	4/30/2029	5,000	5% every year
San Mateo, Isabela	Lot	5/01/2022	4/30/2029	7,000	5% every year
San Mateo, Isabela	Lot	5/01/2022	4/30/2029	1,000	5% every year
San Mateo, Isabela	Building	7/01/2022	6/30/2029	12,000	5% every year
Alfonso Lista, Ifugao	Building	3/26/2023	3/26/2028	2,750	10% after every 5 years

The lease contracts are renewable upon such terms and conditions mutually agreed by the both parties prior to expiration. The leased assets are being depreciated based on useful life of the leased asset or remaining term of the lease, whichever is shorter.

In Philippine Peso

12. INVESTMENT PROPERTIES – net

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

2023		**Land**		**Building**		**Total**
Cost:						
Balance, January 1	₱	4,772,499	₱	1,665,632	₱	6,438,131
Additions		274,500		–		274,500
Disposals		(2,220,753)		(1,112,563)		(3,333,316)
Balance, December 31		**2,826,246**		**553,069**		**3,379,315**
Accumulated Depreciation:						
Balance, January 1		–		265,092		265,092
Depreciation expense (Note 22)		–		51,428		51,428
Disposal		–		(185,427)		(185,427)
Balance, December 31		**–**		**131,093**		**131,093**
Accumulated Impairment Loss:						
Balance, December 31		**1,113,220**		**203,474**		**1,316,694**
Carrying amount	**₱**	**1,713,026**	**₱**	**218,502**	**₱**	**1,931,528**

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 expense (Note 22)		–		139,026		139,026
Balance, December 31		–		265,092		265,092
Impairment loss						
Balance, December 31		1,113,220		203,474		1,316,694
Carrying amount	₱	3,659,279	₱	1,197,066	₱	4,856,345

During the year 2023, investment properties with carrying amount of ₱3,147,889 were sold for ₱10,187,608 realizing a gain on sale of ₱7,039,719, as disclosed in Note 20.

During the year 2022, investment properties with carrying amount of ₱97,000 were sold for ₱250,000 realizing a gain on sale of ₱153,000, as disclosed in Note 20.

Collections from sale amounted to ₱3,912,313 and ₱250,000 for the years ended December 31, 2023 and 2022, respectively.

The fair value is determined on the basis of the appraisals performed by the appraiser with the appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age and condition of the land and buildings and the comparable prices in the corresponding property location.

In Philippine Peso

The Bank carried out a review of the recoverable amounts of its investment properties. In 2022, the Bank determined investment properties that are already eroded, the exact location cannot be traced and is under a legal case. The Bank finds it necessary to record additional impairment on its investment properties. Fair values of the Bank's investment properties as of December 31, 2023 and 2022 amounted to ₱8,167,735 and ₱21,611,757, respectively, as disclosed in Note 7.

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

13. OTHER ASSETS – net

The account consists of the following:

		2023		2022
Accounts receivable	₱	**2,749,711**	₱	2,917,414
Stationery and supplies on hand		**1,071,175**		1,255,308
Sundry debits		**862,939**		8,869,525
Security deposits		**450,000**		450,000
Rental deposit		**65,052**		65,052
Petty cash fund		**9,000**		9,000
Miscellaneous assets		**751,570**		963,888
		5,959,447		14,530,187
Less: Allowance for credit losses		**460,191**		215,756
	₱	**5,499,256**	₱	14,314,431

The movements of allowance for credit losses as of December 31, 2023 and 2022 are shown below:

		2023		2022
Balance, January 1	₱	**215,756**	₱	1,715,756
Provision		**244,435**		–
Reversal		**–**		(1,500,000)
	₱	**460,191**	₱	215,756

Miscellaneous asset pertains to inter-office float items, documentary stamp tax, due from Info serve and Nation link, and others.

14. DEPOSIT LIABILITIES

This account consists of the following:

		2023		2022
Savings deposits	₱	**774,752,652**	₱	757,611,209
Demand deposits		**159,522,666**		157,107,643
	₱	**934,275,318**	₱	914,718,852

Savings and demand deposits bear annual interest rate ranging from 0.50% to 4% in 2023 and 2022.

In Philippine Peso

Total interest expense on deposit liabilities amounted to ₱7,823,963 and ₱7,669,524 for 2023 and 2022, respectively, and is presented as part of interest expense in the statement of comprehensive income.

As per BSP Circular No. 1175 Series of 2023, reserves against deposit liabilities for banks is reduced to one percent (1%) for savings, time and demand deposits. The Bank has satisfactorily complied with the reserve requirements of the BSP as of December 31, 2023 and 2022.

The Bank is in compliance with these regulations as the Bank's due from BSP account, amounting to ₱27,214,721 and ₱27,416,454 as of December 31, 2023 and 2022, respectively, as disclosed in Note 8, and is enough to cover the required reserve requirements.

15. ACCRUED AND OTHER LIABILITIES

Details of this account are disclosed below:

		2023		2022
Accounts payable	₱	**6,768,079**	₱	4,515,991
Accrued expenses		**3,297,459**		2,994,326
Lease liability		**2,667,673**		2,666,823
Accrued interest expense		**1,076,504**		626,995
Deposit for redemption		**971,000**		921,000
Due to Treasurer of the Philippines		**443,619**		340,485
SSS, Philhealth and HDMF contribution		**378,728**		186,054
Withholding tax payable		**360,205**		315,350
Due to Philippine Crop Insurance Corporation		**106,474**		106,474
Deposit for stock subscription		**–**		12,500,300
Sundry credit		**159,289**		1,109,100
	₱	**16,229,030**	₱	26,282,898

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.

In 2023, the Bank availed a loan from Security Bank related to transportation equipment (Toyota Fortuner) amounting to ₱759,314, the related interest expense reported in statements of comprehensive income amounted to ₱42,521.

Accrued expenses include accrual of PDIC insurance, professional fees, utilities, transportation and travel and other expenses.

The movement of deposit for stock subscription is as follows:

		2023		2022
Beginning balance, January 1	₱	**12,500,300**	₱	9,481,700
Additions		**–**		3,018,600
Reclassification to equity		**(12,500,300)**		–
	₱	**–**	₱	12,500,300

In Philippine Peso

15.01 Lease Liability

The details of the Bank's lease liability and their carrying amounts are as follows:

		2023		2022
January 1	₱	**2,666,823**	₱	486,491
Additions		**146,975**		2,539,025
Interest		**200,064**		112,201
Payments		**(604,547)**		(470,894)
Adjustments		**258,358**		–
December 31	₱	**2,667,673**	₱	2,666,823

The breakdown of lease liabilities as to current and non-current is as follows:

		2023		2022
Current	₱	**469,571**	₱	403,757
Non-current		**2,198,102**		2,263,066
Total	₱	**2,667,673**	₱	2,666,823

The maturity analysis of lease liabilities as at December 31, 2023 and 2022 is as follows:

2023		**Lease Payments**		**Finance Charges**		**Net Present Values**
Within 1 year	₱	642,739	₱	173,168	₱	469,571
1 – 2 years		673,526		138,034		535,492
2 – 3 years		705,465		98,073		607,392
3 – 4 years		570,532		55,316		515,216
4 – 5 years		402,800		26,003		376,797
More than 5 years		166,172		2,967		163,205
Total	**₱**	**3,161,234**	**₱**	**493,561**	**₱**	**2,667,673**

2022		Lease Payments		Finance Charges		Net Present Values
Within 1 year	₱	578,495	₱	174,738	₱	403,757
1 – 2 years		578,699		145,807		432,892
2 – 3 years		598,337		113,584		484,753
3 – 4 years		746,959		80,180		666,779
4 – 5 years		326,741		38,613		288,128
More than 5 years		411,000		20,486		390,514
Total	₱	3,240,231	₱	573,408	₱	2,666,823

In Philippine Peso

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:

	2023	2022
Discount rate	**6.12%**	7.22%
Salary rate increase	**3.00%**	3.00%

The amount of retirement benefit obligation recognized in the statements of financial position as of December 31, 2023 and 2022 are determined as follows:

		2023		2022
Present value of defined benefit obligation	**₱**	**23,134,540**	₱	18,782,535
Fair value of plan assets		**(17,317,916)**		(15,295,254)
Present value of defined benefit obligation	**₱**	**5,816,624**	₱	3,487,281

Movements in the present value of the defined benefit obligation for the years ended December 31, 2023 and 2022 are as follows:

		2023		2022
Balance, January 1	**₱**	**18,782,535**	₱	21,811,042
Current service cost		**1,409,503**		1,744,069
Interest expense		**1,356,099**		1,092,733
Benefits paid directly from book reserve		**–**		(169,475)
Benefits paid from plan asset		**–**		(1,895,302)
Actuarial loss (gain) – changes in financial assumpt		**2,431,441**		(5,179,225)
Actuarial loss (gain) – experience		**(845,038)**		1,378,693
Balance, December 31	**₱**	**23,134,540**	₱	18,782,535

Movements in fair value of plan assets for the years ended December 31, 2023 and 2022 are as follows:

		2023		2022
Balance, January 1	**₱**	**15,295,254**	₱	13,575,149
Contributions		**1,744,069**		2,516,969
Interest income		**1,167,278**		695,688
Benefits paid from plan asset		**–**		(1,895,302)
Remeasurement gain (loss) – return on plan assets		**(888,685)**		402,750
Balance, December 31	**₱**	**17,317,916**	₱	15,295,254

In Philippine Peso

The fund is invested on treasury bills and is administered by the Bank.

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

		2023		2022
Current service cost	₱	**1,409,503**	₱	1,744,069
Interest on defined benefit obligation		**1,356,099**		1,092,733
Interest income on plan assets		**(1,167,278)**		(695,688)
	₱	**1,598,324**	₱	2,141,114

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

		2023		2022
Actuarial (gain) loss – DBO	₱	**1,586,403**	₱	(3,800,532)
Remeasurement (gain) loss – plan assets		**888,685**		(402,750)
	₱	**2,475,088**	₱	(4,203,282)

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:

		2023		2022
Beginning balance	₱	**(516,059)**	₱	2,636,402
Actuarial (gain) loss – DBO		**1,586,403**		(3,800,532)
Remeasurement (gain) loss – plan assets		**888,685**		(402,750)
Deferred tax effect		**(618,772)**		1,050,821
Impact of CREATE Law not accounted in 2021		**297,259**		–
Cumulative actuarial (gain) loss – net of tax	₱	**1,637,516**	₱	(516,059)

Maturity analysis: 10-year projection of expected future benefits payments is as follow:

		2023		2022
Year 1	₱	**3,243,059**	₱	379,420
Year 2		**1,191,419**		3,208,851
Year 3		**417,896**		1,174,904
Year 4		**492,109**		443,170
Year 5		**556,956**		522,045
Year 6 – 10		**16,975,831**		14,609,593

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**		**Retirement Benefit Obligation**		
			2023		2022
Discount rate	+1%	₱	(2,228,259)	₱	(1,776,203)
	-1%		2,644,908		2,097,673
Salary increase rate	+1%		2,703,847		2,168,542
	-1%		(2,310,727)		(1,859,636)

In Philippine Peso

The 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. RELATED PARTY TRANSACTIONS

The Bank's related parties include its stockholders, entities under common ownership, and the Bank's key management personnel.

17.01 Loans Receivable from DOSRI

In the ordinary course of business, the Bank has loans and other transactions with certain DOSRI. Under existing policies of the Bank, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under existing BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the individual's deposit and the investment book value in the Bank. In aggregate, loans to DOSRI, generally, should not exceed the total capital funds or 15% of the loan portfolio of the Bank.

As of December 31, 2023 and 2022, the Bank has DOSRI loans amounting to ₱1,135,782 and ₱1,434,310, respectively.

The summary of Bank significant transactions with its related parties as of and for the years ended December 31, 2023 and 2022.

2023

Category	Amount of Transactions	Outstanding Balances	Terms	Conditions
DOSRI loans	**₱ (298,528)**	**₱ 1,135,782**	**Payable on installment, interest-bearing, cash-settled**	**Secured**

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2022						
Category		Amount of Transactions		Outstanding Balances	Terms	Conditions
DOSRI loans	₱	(334,659)	₱	1,434,310	Payable on installment, interest-bearing, cash-settled	Secured

These loans bear annual interest of 12% in 2023 and 2022, and have term of 5 years. No provision was recognized for the years ended December 31, 2023 and 2022. Total allowance for credit losses related to DOSRI loans amounted to ₱11,358 and ₱14,343 as of December 31, 2023 and 2022, respectively.

The General Banking Act and BSP regulations limit the amount of loans to each director, officer, shareholder and related interest (DOSRI).

a) The individual ceiling for credit accommodation of a rural bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodation to each of the Bank's DOSRI shall not exceed thirty percent (30%) of his total credit accommodations.
b) The aggregate ceiling for credit accommodation whether direct or indirect, to DOSRI of a bank shall not exceed fifteen percent (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 DOSRI shall not exceed thirty percent (30%) of the aggregate ceiling or outstanding direct/indirect credit accommodation thereto, whichever is lower.

2023		**DOSRI Loans**		**Related Party Loans (Inclusive of DOSRI Loans)**
Total outstanding DOSRI/ Related party loans	**₱**	**1,135,782**	**₱**	**38,045,037**
Percent of DOSRI/ Related party accounts to total loans		**0.18%**		**5.88%**
Percent of unsecured DOSRI/ Related party accounts to DOSRI/ Related party accounts		**0.00%**		**0.00%**
Percent of past due DOSRI/ Related party accounts to total DOSRI/ Related party accounts		**0.00%**		**3.50%**
Percent of nonperforming DOSRI/ Related party accounts to total DOSRI/ Related party accounts		**0.00%**		**3.50%**

2022		DOSRI Loans		Related Party Loans (Inclusive of DOSRI Loans)
Total outstanding DOSRI/ Related party loans	₱	1,434,310	₱	37,999,488
Percent of DOSRI/ Related party accounts to total loans		0.22%		5.75%
Percent of unsecured DOSRI/ Related party accounts to DOSRI/ Related party accounts		0.00%		0.83%
Percent of past due DOSRI/ Related party accounts to total DOSRI/ Related party accounts		0.00%		6.40%
Percent of nonperforming DOSRI/ Related party accounts to total DOSRI/ Related party accounts		0.00%		6.40%

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17.02 DOSRI Deposits

Certain key management personnel maintain deposit accounts and placements with the Bank, which are included as part of Deposit Liabilities account in the statements of financial position. Such accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors.

As at December 31, 2023 and 2022 total outstanding deposit from DOSRI amounted to ₱33,618,528 and ₱34,038,312, respectively.

17.03 Deposit for future stocks subscription

The Bank has deposit for stocks subscription from its stockholders' amounting nil and ₱12,500,300 as of December 31, 2023 and 2022, respectively.

17.04 Leases

The Bank leases a lot and storage space from an officer for a monthly rental ranging from ₱1,000 - ₱12,000. The lease is generally payable in cash on a monthly basis.

17.05 Key Management Personnel Compensation

The details of compensation of key management personnel are presented below:

		2023		2022
Short term benefits	₱	**10,552,285**	₱	16,821,705
Post-employment benefits		**1,744,069**		2,516,969
Balance, December 31	₱	**12,296,354**	₱	19,338,674

The Bank does not have any related party transactions to be qualified under Section 2 of RR No. 34-2020, hence, not covered by the requirements and procedures therein.

18. CAPITAL STOCK

18.01 Preferred Stock

Shown below are the details on preferred stock:

	2023			2022		
	Stocks		**Amount**	Stocks		Amount
Authorized capital at ₱100 par value	**25,000**	₱	**2,500,000**	25,000	₱	2,500,000

The preferred stock of the Bank gives priority in the distribution of the assets of the Bank in case of liquidation. As to dividends, preferred stocks 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 stocks 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 stocks were issued as of December 31, 2023 and 2022. Preferred stocks shall be issued only against government investment in the capital stock of the Bank.

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18.02 Common Stock

Shown below are the details on the movement of common stock:

	2023			2022		
	Shares		**Amount**	Shares		Amount
Authorized capital at ₱100 par value	**975,000**	**₱**	**97,500,000**	475,000	₱	47,500,000
Issued and fully paid at ₱100 par value						
Balance, January 1	**475,000**	**₱**	**47,500,000**	475,000	₱	47,500,000
Issuance	**125,000**		**12,500,000**	–		–
Balance, December 31	**600,000**	**₱**	**60,000,000**	475,000	₱	47,500,000

Ordinary shares carry one (1) vote per share and a right to dividends.

In a meeting held on November 24, 2022, the Board of Directors 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.

On June 16, 2023, the Securities and Exchange Commission approved the increase of authorized share authorized shares to 1,000,000 with par value of ₱100, divided into 975,000 common shares and 25,000 preferred shares.

18.03 Deposit for stock subscription

As of December 31, 2023 and 2022, the Bank has complied with all the requirements in classifying the deposit for stock subscription as an equity which are as follows:

(a) The deposit for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards (PAS) 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;
(b) The Bank's existing authorized capital is already fully subscribed;
(c) The Bank's stockholders and board of directors have approved the proposed increase in authorized capital;
(d) The Bank has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the Bangko Sentral, duly supported by complete documents as prescribed by the Bangko Sentral: Provided, That the approval of the Securities and Exchange Commission (SEC) on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin on Deposit for Future Subscription.; and
(e) The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable.

The movements in deposit for stock subscription are as follows:

		2023		2022
At January 1	**₱**	**–**	₱	–
Reclassification from liability		**12,500,300**		–
Reclassification to share capital		**(12,500,000)**		–
At December 31	**₱**	**300**	₱	–

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18.04 Capital Management

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

The Bank manages its capital structure, 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.

18.04.01 Capital Ratios as of December 31, 2023

Appendix 62 of the MORB, as amended by BSP Circular Nos. 1079 and 1084, discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks.

The minimum capital ratios shall be expressed as a percentage of capital to risk-weighted assets as shown below:

Minimum Capital Ratio	Capital	% of Risk-Weighted Assets
Common Equity Tier 1 (CET1) Ratio	CET1	at least 6.0%
Tier 1 Ratio	Tier 1	at least 7.5%
Capital Adequacy Ratio (CAR)	Qualifying Capital	at least 10.0%

A capital conservation buffer (CCB) of two and a half percent (2.5%), comprised of CET1 capital, shall likewise be imposed.

The minimum capital ratios based on the new compositions and the CCB shall take effect starting January 1, 2023.

Qualifying capital consists of the following elements, net of required deductions:

a) Tier 1 Capital, which is composed of:
   i. CET1 Capital; and
   ii. Additional Tier 1 (AT1) Capital
b) Tier 2 Capital

CET1 Capital consists of:

a) Paid-up common stock
b) Deposit for stock subscription
c) Surplus reserves
d) Surplus free; and
e) Other comprehensive income

   Subject to deductions/regulatory adjustments for:
   i. Defined benefit pension asset (liabilities); and
   ii. Deferred tax asset, net

Tier 2 Capital consists of:
a) General loan loss provision;

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Additionally, CCB is meant to promote the conservation of capital and build-up of adequate cushion above the minimum level that can be drawn down by banks to absorb losses during periods of financial and economic stress. The buffer is on top of the minimum capital requirements. The capital must first be used to meet the minimum CET1 ratio before the remainder can contribute to the CCB.

Where a bank does not have positive earnings, has CET1 ratio of lower than eight and a half percent (8.5%) [CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%)], and has not complied with other minimum capital ratios, the Bank would then be restricted from making distribution of earnings.

Information regarding the Bank's qualifying capital as of December 31, 2023 is shown below:

		2023
CET1 Capital	₱	**172,311,296**
AT1 Capital		**–**
Tier 1 Capital		**172,311,296**
Tier 2 Capital		**5,074,173**
Qualifying capital		**177,385,469**
Total risk-weighted assets	₱	**1,076,371,266**
CET1 Ratio		**16.01%**
CCB		**10.01%**
Tier 1 capital		**16.01%**
Total CAR		**16.48%**

The Bank's leverage ratio, computed as total capital over total assets, is 14.78% and 13.25%, as of December 31, 2023 and 2022, respectively.

On August 24, 2022, the BSP issued Circular No. 1151, Amendments to Minimum Capitalization of Rural Banks, increasing the minimum capitalization requirement to ₱50 million for rural banks with up to 5 branches, which must be satisfied within five years from the date of effectivity of the circular. Banks which comply with the new capital levels must submit to the BSP a certification to this effect, within 10 banking days from the date of effectivity of this circular. Banks availing of the capital build-up track shall submit to the BSP within six months from the date of effectivity of this circular. On October 3, 2022, the Bank submitted its certificate of compliance with the said circular.

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18.04.02 Capital Ratios as of December 31, 2022

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. The regulatory capital is analysed 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 free; and
   iii. surplus reserves

   Subject to deductions for:
   i. deferred tax asset, net

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 is shown below.

		2022
Gross Core Tier 1 Capital	₱	156,443,376
Less: Regulatory adjustments to Core Tier 1		10,417,689
Net Core Tier 1 Capital		146,025,687
Add: Hybrid Tier Capital		–
Tier 1 Capital		146,025,687
Tier 2 Capital		5,605,442
Total qualifying capital		151,631,129
Total risk-weighted assets	₱	919,464,613
Tier 1 capital ratio		15.88%
Total capital adequacy ratio		16.49%

In Philippine Peso

19. SURPLUS

19.01 Surplus Free

The table below shows the surplus free for the year:

		2023		2022
Surplus free, January 1	₱	**95,215,746**	₱	87,776,989
Profit		**17,884,372**		11,438,757
Cash dividends		**(5,750,000)**		(4,000,000)
Reversal of appropriation		**383,169**		–
Surplus free, December 31	₱	**107,733,287**	₱	95,215,746

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 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

19.02 Surplus Reserves

The surplus reserves pertain to reserve set aside by Bank for contingencies and corporate responsibilities.

The movements in surplus reserves are as follows:

		2023		2022
Surplus reserves, beginning	₱	**13,727,630**	₱	13,740,293
Reversal of appropriation		**(383,169)**		(12,663)
	₱	**13,344,461**	₱	13,727,630

The reversal of appropriation in 2023 pertained to disbursements incurred for corporate social responsibility of the Bank.

The reversal of appropriation in 2022 pertained to payment of rapid antigen test and donations to areas affected by typhoons and expenditures related to COVID-19 health measures.

19.03 Dividends

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 dividends declarations that are subject to prior Bangko Sentral verification, the liability for dividends shall be taken up in the books upon receipt of Bangko Sentral advice thereof.

On July 6, 2023, the Bank, through Board Resolution No. SBM20230706-01, declared cash dividend amounting to ₱5,750,000 to its ordinary shareholders on record as of December 31, 2022. This was also paid in 2023.

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.

In Philippine Peso

20. OTHER INCOME

This account consists of the following:

	Note		2023		2022
Recovery on charged-off assets		₱	**13,436,528**	₱	9,605,120
Gain from sale/disposal of investment properties	12		**7,039,719**		153,000
Service charge			**1,321,501**		672,963
Intermediation services			**103,786**		122,725
Payment services			**97,440**		129,751
Miscellaneous income			**622,924**		705,137
		₱	**22,621,898**	₱	11,388,696

Recovery on charged-off assets pertains to the collections of accounts or recovery from impairment of items previously written-off/provided with allowance for credit losses. Breakdown of this account is as follows:

		2023		2022
Recovery on reversal of allowance for credit losses	₱	**12,400,698**	₱	7,811,635
Recovery on collections of written-off accounts		**1,035,830**		1,793,485
	₱	**13,436,528**	₱	9,605,120

Miscellaneous income pertains to bank certification, nominal fee, cancellation fee, insurance, and others.

In Philippine Peso

21. OTHER EXPENSES

Details of other expenses are shown below:

	Notes		2023		2022
Compensation and fringe benefits		₱	**31,507,854**	₱	29,034,353
Taxes and licenses			**7,436,418**		6,608,297
Depreciation and amortization	22		**2,997,981**		2,955,610
Travel expense			**2,442,415**		1,220,340
Insurance			**2,364,343**		2,351,779
Fuel and lubricants			**1,517,681**		1,474,292
Security, messengerial and janitorial services			**1,491,928**		1,504,937
Power, light and water			**1,148,484**		1,565,908
Information technology expense			**1,136,926**		1,181,853
Representation and entertainment			**929,850**		919,700
Repairs and maintenance expense			**665,912**		457,649
Postage, telephone, cable and telegrams			**606,750**		575,733
Stationery and supplies used			**516,475**		456,685
Management and other professional fees			**495,600**		670,333
Advertising and publicity			**471,391**		468,838
Litigation expense			**390,912**		1,272,711
Interest on lease liability	15		**200,064**		112,201
Supervision fees			**185,233**		173,203
Fines and penalties			**12,260**		11,050
Miscellaneous expense			**3,163,246**		3,016,528
		₱	**59,681,723**	₱	56,032,000

Miscellaneous expenses pertain to membership fees and dues and other expenses.

Compensation and fringe benefits consists of:

	Note		2023		2022
Salaries and wages		₱	**21,424,497**	₱	19,606,396
Other fringe benefits			**4,748,488**		3,886,319
Government contributions			**2,246,545**		1,860,524
Retirement expense	16		**1,598,324**		2,141,114
Directors' fee			**1,490,000**		1,540,000
		₱	**31,507,854**	₱	29,034,353

22. DEPRECIATION AND AMORTIZATION

	Notes		2023		2022
Bank premises, furniture, fixtures and equipment	11	₱	**2,946,553**	₱	2,816,584
Investment properties	12		**51,428**		139,026
		₱	**2,997,981**	₱	2,955,610

In Philippine Peso

23. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Allowance for credit and impairment losses is comprised of the following:

	Notes		2023		2022
Balance at January 1					
Loans and other receivables	10	₱	**43,851,850**	₱	37,552,897
Investment properties	12		**1,316,694**		1,316,694
Accounts receivable	13		**215,756**		1,715,756
			45,384,300		40,585,347
Provision for credit losses					
Loans and other receivables	10		**19,804,895**		14,061,369
Accounts receivable	13		**244,435**		–
			20,049,330		14,061,369
Write-off					
Loans and other receivables	10		**–**		(1,166,782)
Reversal					
Loans and other receivables	10		**(12,675,198)**		(6,595,634)
Accounts receivable	13		**–**		(1,500,000)
			(12,675,198)		(8,095,634)
Balance at December 31					
Loans and other receivables	10		**50,981,547**		43,851,850
Investment properties	12		**1,316,694**		1,316,694
Accounts receivable	13		**460,191**		215,756
		₱	**52,758,432**	₱	45,384,300

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, discussed below, 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.

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three-year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

In Philippine Peso

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In 2020, to address the impact of COVID-19, the Senate and the House of Representatives enacted Republic Act (RA) No. 11494 or the Bayanihan to Recover as One Act (Bayanihan II) effective September 15, 2020 with an original expiry date of December 19, which has since been extended to mid-2021. Bayanihan II provides for COVID-19 response and recovery interventions and mechanisms to accelerate the recovery and to bolster the resiliency of the economy.

Among the response and recovery interventions provided under Bayanihan II are the carry-over of net operating losses incurred by the business or enterprise for taxable years 2020 and 2021 as deductions from gross income (for purposes of computing net taxable income subject to regular corporate income tax) over the next five consecutive taxable years immediately following the year of such loss Section 4 (bbbb) of the Bayanihan II).

Under Bayanihan II, NOLCO would remain in effect even after the expiration of the Act, provided that the deductions are claimed within the next five consecutive taxable years.

December 22, 2020, the Bureau of Internal Revenue (BIR) clarified, through Revenue Memorandum Circular (RMC) No. 138-2020, that the net operating loss carry-over (NOLCO) may be availed of under RR No. 25-2020 for taxpayers operating on fiscal-year reporting. The RMC enumerated fiscal years ending between July 31 and November 30, 2020 and January 31 to June 30, 2021 as falling within the taxable year 2020. Meanwhile, fiscal years ending between July 31 to November 30, 2021 and January 31 to June 30, 2022 fall within the taxable year 2021. Thus, net losses incurred by businesses or taxpayers during these fiscal years can be carried over as deductions from gross income for the next five consecutive taxable years.

24.01 Income Tax Recognized in Profit/Loss

Components of income tax expense are as follows:

	2023	2022
Income tax expense – current	₱ **6,368,101**	₱ 4,597,454
Income tax benefit – deferred	**(1,909,399)**	(1,626,760)
Final tax	**1,408,203**	842,225
Impact of CREATE law	**(297,259)**	–
	₱ **5,569,646**	₱ 3,812,919

In Philippine Peso

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2023 and 2022 is as follows:

		2023		2022
Accounting profit	₱	**23,454,018**	₱	15,251,676
Tax expense at 25%		**5,863,505**		3,812,919
Interest income subject to final tax-net		**(351,631)**		(210,556)
Disallowed interest expense		**351,966**		210,556
Other non-deductible expenses		**3,065**		–
Impact of CREATE Law		**(297,259)**		–
	₱	**5,569,646**	₱	3,812,919

In Philippine Peso

24.02 Deferred Taxes

24.02.01 Deferred Tax Asset

Net deferred tax assets relating to temporary differences that were recognized by the Bank as of December 31, 2023 and 2022 are summarized below:

	Deferred Tax Assets					
	Allowance for credit and impairment losses	**Retirement benefit obligation**	**Excess of lease liability over ROU asset**	**Excess contribution to retirement fund over current service cost**	**Total deferred tax assets**	**Impact to profit/(loss)**
Balance, December 31, 2021	7,770,116	2,058,973	12,661	–	9,841,750	
Recognized in profit and loss						
Origination	3,515,342	535,279	7,434	193,225	4,251,280	4,251,280
Reversal	(1,952,909)	(671,611)	–	–	(2,624,520)	(2,624,520)
Recognized in OCI						
Origination	–	(1,050,821)	–	–	(1,050,821)	1,626,760
Balance, December 31, 2022	9,332,549	871,820	20,095	193,225	10,417,689	
Recognized in profit and loss						
Origination	5,012,333	399,581	46,347	83,642	5,541,903	5,541,903
Reversal	(3,168,800)	(436,017)	–	(27,687)	(3,632,504)	(3,632,504)
Recognized in OCI						
Origination	–	618,772	–	–	618,772	1,909,399
Balance, December 31, 2023	**11,176,082**	**1,454,156**	**66,442**	**249,180**	**12,945,860**	

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 amounted to ₱2,013,526.

24.03 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; or
b. Related party transactions meeting the following materiality threshold:
   i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
   ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year
   iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Bank is not covered by the requirements and procedures for related party transactions under the said RR.

24.04 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding ₱100 million, excluding land, and total net taxable income of not more than ₱5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
    - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
    - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment domestic subsidiaries, and infrastructure project; and
    - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
    - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
    - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

In Philippine Peso

25. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following shows the movement of financing liabilities.

			Non-cash changes					
2023	**January 1**	**Cash flows**	**Foreign exchange**	**Interest expense**	**Fair value changes**	**Others**	**Leases**	**December 31**
Lease liability	2,666,823	(604,547)	–	200,064	–	258,358	146,975	2,667,673
Dividends payable	5,750,000	(5,750,000)	–	–	–	–	–	–
Deposit for stock subscription	12,500,300	–	–	–	–	(12,500,000)	–	300
	20,917,123	**(6,354,547)**	**–**	**200,064**	**–**	**(12,241,642)**	**146,975**	**2,667,973**

			Non-cash changes					
2022	January 1	Cash flows	Foreign exchange	Interest expense	Fair value changes	Others	Leases	December 31
Lease liability	486,491	(470,894)	–	112,201	–	–	2,539,025	2,666,823
Dividends payable	4,000,000	(4,000,000)	–	–	–	–	–	–
Deposit for stock subscription	9,481,700	3,018,600	–	–	–	–	–	12,500,300
	13,968,191	(1,452,294)	–	112,201	–	–	2,539,025	15,167,123

In 2023, cash flows related to lease liability include principal payment and interest expense amounting to ₱404,483 and ₱200,064, respectively.

In 2022, cash flows related to lease liability include principal payment and interest expense amounting to ₱358,693 and ₱112,201, respectively.

In Philippine Peso

26. RECLASSIFICATION OF ACCOUNTS

Certain amounts in the 2022 financial statements and note disclosures have been reclassified to conform to the current year's presentation. Details are as follows:

Old classification	New classification	Notes	Amount
Deposit for future stock subscription	Accrued and other liabilities	15	12,500,300

Management believes that the above reclassifications resulted to a better presentation of financial statements and did not have any impact on prior year's profit or loss.

27. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank is a plaintiff in various cases, arising from the normal course of business, pending in courts for alleged claims against the Bank. The final outcome of which cannot be determined at present.

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. As at December 31, 2023 and 2022, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

28. EVENTS AFTER THE REPORTING DATE

No events after the date of the statement of financial position were identified in these financial statements that provide evidence of conditions that existed at the date of the statement of financial position (adjusting events after the date of the statement of financial position) and that were indicative of conditions that arose after the date of the statement of financial position (non-adjusting events after the date of the statement of financial position.

29. 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 disclosure under PFRS.

In Philippine Peso

29.01 Gross Receipts Tax

In lieu of the value-added tax (VAT), the Bank is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended. In 2023 and 2022, the Bank reported total GRT as shown below:

		2023		2022
Gross receipts tax paid	₱	**3,790,399**	₱	3,686,493
Gross receipts tax payable		**1,460,920**		755,966
	₱	**5,251,319**	₱	4,442,459

29.02 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 periods ended December 31, 2023 and 2022 consist of:

		2023		2022
National taxes:				
Percentage tax	₱	**5,251,319**	₱	4,442,459
Documentary stamp tax		**1,417,932**		1,450,185
Local taxes:				
Business permit		**589,667**		575,259
Real property taxes		**70,278**		69,742
Registration fees		**42,396**		36,414
Annual registration		**2,500**		2,500
Other taxes and license		**62,326**		31,738
	₱	**7,436,418**	₱	6,608,297

29.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2023 and 2022 consist of:

2023		**Paid**		**Accrued**		**Total**
Expanded withholding tax	₱	322,804	₱	62,845	₱	385,649
Withholding tax on compensation		465,464		55,427		520,891
Final withholding tax		1,249,412		241,933		1,491,345
	₱	**2,037,680**	₱	**360,205**	₱	**2,397,885**

2022		Paid		Accrued		Total
Expanded withholding tax	₱	303,901	₱	47,284	₱	351,185
Withholding tax on compensation		522,081		48,689		570,770
Final withholding tax		1,597,314		219,377		1,816,691
	₱	2,423,296	₱	315,350	₱	2,738,646

29.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2023 and 2022.

In Philippine Peso

29.05 Tax Cases

As of December 31, 2023 and 2022, the Bank does not have any final deficiency tax assessments from the BIR does not have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

30. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

30.01 Basic Quantitative Indicators of Financial Performance

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

	2023	2022
Return on average equity	**9.35%**	7.54%
Return on average assets	**1.40%**	1.06%
Net interest margin	**7.53%**	7.55%

30.02 Capital Instrument Issued

The description of the capital instrument issued by the Bank is disclosed in Note 18.

In Philippine Peso

30.03 Significant Credit Exposures

The Bank concentration of credit as to the industry/economic sector are as follows (net of unamortized discount):

	2023			2022		
	Peso Amount	**% As to Industry**	**% to Tier 1**	Peso Amount	% As to Industry	% to Tier 1
Agriculture, forestry and fishing	**212,049,331**	**32.75%**	**123.06%**	240,374,947	36.36%	164.61%
Wholesale and retail trade, repair of motor vehicles and motorcycles	**189,268,089**	**29.23%**	**109.84%**	194,324,551	29.40%	133.08%
Construction	**57,084,823**	**8.82%**	**33.13%**	56,238,048	8.51%	38.51%
Real estate activities	**66,069,511**	**10.20%**	**38.34%**	55,187,589	8.35%	37.79%
Activities of households as employers and undifferentiated goods and services producing activities of households for own use	**49,570,455**	**7.66%**	**28.77%**	32,719,987	4.95%	22.41%
Transportation and storage	**32,455,285**	**5.01%**	**18.84%**	36,895,848	5.58%	25.27%
Accommodation and food service activities	**13,717,455**	**2.12%**	**7.96%**	13,699,905	2.07%	9.38%
Information and communication	**11,875,421**	**1.83%**	**6.89%**	9,081,422	1.37%	6.22%
Education	**5,578,547**	**0.86%**	**3.24%**	7,079,801	1.07%	4.85%
Professional, scientific and technical Activities	**4,505,890**	**0.70%**	**2.61%**	5,190,158	0.79%	3.55%
Mining and quarrying	**1,632,001**	**0.25%**	**0.95%**	3,849,116	0.58%	2.64%
Manufacturing	**1,395,441**	**0.22%**	**0.81%**	2,388,249	0.36%	1.64%
Financial and insurance activities	**268,631**	**0.04%**	**0.16%**	684,950	0.10%	0.47%
Water supply, sewerage, waste management and Remediation Activities	**125,129**	**0.02%**	**0.07%**	–	0.00%	0.00%
Electricity, gas, steam and air- conditioning supply	**–**	**0.00%**	**0.00%**	646,547	0.10%	0.44%
Administrative and support service activities	**–**	**0.00%**	**0.00%**	160,053	0.02%	0.11%
Human health and social work activities	**–**	**0.00%**	**0.00%**	148,059	0.02%	0.10%
Other service activities	**1,836,826**	**0.29%**	**1.07%**	2,390,739	0.37%	1.64%
Total	**647,432,835**	**100.00%**		661,059,969	100.00%	

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 amounting to ₱17,229,784 and ₱14,602,569, as of December 31, 2023 and 2022, respectively.

In 2023 and 2022, the Bank is exposed to credit risk concentration on agriculture, forestry and fishing amounting to more than 30% of the total loan portfolio. The Bank is also exposed to credit risk concentration on agriculture, forestry and fishing, wholesale and retail trade, repair of motor vehicles and motorcycles, construction, real estate activities and activities of households as employers and undifferentiated goods and services producing activities of households for own use amounting to more than 10% of Tier 1 Capital.

In Philippine Peso

30.04 Breakdown of Total Loans

30.04.01 As to security
Breakdown of loans as to secured and unsecured, and secured loans as to type of security (net of unamortized discount):

	2023	2022
Secured by real estate mortgage	₱ **488,790,025**	₱ 501,712,434
Secured by chattel mortgage	**82,065,181**	92,458,923
Others	**34,707,308**	21,078,976
Secured	**605,562,514**	615,250,333
Unsecured	**41,870,321**	45,809,636
	₱ **647,432,835**	₱ 661,059,969

30.04.02 As to status
Breakdown of loans as to performing and non-performing status per product is as follows (net of unamortized discount):

2023	Performing	Non-performing	Total
Loans to individual for other purposes	₱ 110,108,200	₱ 13,862,581	₱ 123,970,781
Other agricultural credit loans	23,826,326	5,739,085	29,565,411
Agrarian reform loans	139,780,269	23,808,032	163,588,301
Medium scale enterprise	243,656,412	30,664,398	274,320,810
Small scale enterprise loans	49,292,917	6,694,615	55,987,532
	₱ **566,664,124**	₱ **80,768,711**	₱ **647,432,835**

2022	Performing	Non-performing	Total
Loans to individual for other purposes	₱ 84,799,469	₱ 12,204,913	₱ 97,004,382
Other agricultural credit loans	32,979,190	3,850,910	36,830,100
Agrarian reform loans	147,265,158	22,414,436	169,679,594
Medium scale enterprise	275,923,300	29,191,893	305,115,193
Small scale enterprise loans	44,100,196	8,330,504	52,430,700
	₱ 585,067,313	₱ 75,992,656	₱ 661,059,969

30.05 Information of Related Party Loans

Information on related party loans is disclosed in Note 17.

30.06 Aggregate Amount of Secured Liabilities and Assets pledge as Security

As of December 31, 2023 and 2022, no loans receivable were used as collateral for bills payable, as disclosed in Note 10.

In Philippine Peso

30.07 Contingencies and Commitments Arising from Off-balance Sheet Items

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

		2023		2022
Items held for safekeeping	₱	**4,179**	₱	3,271
Items held as collateral		**747**		854
	₱	**4,926**	₱	4,125